

This Aries Insight begins with something of a brainteaser:

Initially, this appears to be in Ireland already but has actually yet to be introduced! What is it?

The answer is, of course, AE with Ireland's version of automatic enrolment (AE) for pensions due to launch in January 2025. In advance of this, we look at the main features of the Irish system before comparing it to how AE operates in the UK.

Overview

Ireland is one of the few 'Organisation for Economic Cooperation and Development' (OECD) countries that doesn't operate an AE system to promote pension savings. That is about to change, though, with the Irish Government targeting a start date of 1 January 2025 for AE to become a reality for Irish employees and employers.

Elements of the system design have been taken from analysing how AE operates in other countries, such as the UK, Australia, Sweden, Denmark and New Zealand. As a result, it reflects some of best practices and avoids some known pitfalls.

Legislation, in the form of [The Automatic Enrolment Retirement Savings System Bill 2024](#), has been published. Once this has been passed and enacted, AE will come into effect. Therein, lies the problem though. With less than a year to go until the intended launch date, there is still the passing of legislation to be finalised, tender processes to be held, operational issues to be properly addressed and communications to be prepared to ensure Ireland knows AE is on the way.

Aims

Ireland has an ageing population and many employees are not members of a pension scheme, which means they may be relying on the state pension when they retire. The AE solution being adopted has been designed to run alongside the existing pensions landscape in Ireland.

The maximum State Pension is currently €277.30 per week (€14,420 per year) and is available from age 66. Average earnings in Ireland are €47,000, with the full State Pension representing only around 30% of that.

Once established, AE should bring benefits to the Irish economy. Those that are enrolled can build up private pension funds that will result in them having more money when they

retire, thus reducing the numbers relying on the State Pension alone. In effect, employees and retirees will have more money to invest and spend than they would have otherwise, with this helping to sustain consumer demand and business revenues. Employers will benefit from participating in a system that helps employees feel more secure about their retirement.

Essentially, the AE system has been developed on the basis that making provision for retirement income is a cost that should be shared between all parties that benefit, being employees, employers and the State.

Administration of AE

An independent Central Processing Authority (CPA) will be set up to administer the scheme. This will be referred to as the National Automatic Enrolment Retirement Savings Authority (NAERSA). It will have many responsibilities, including:

- Tendering for investment management services.
- Providing administration and fund accounting services.
- Collecting contributions from employees, employers and the State.

- Distributing contributions to the 'Registered Providers' for investment.
- Managing opt-ins, opt-outs and requests to suspend contributions.
- Allocating investment returns to member accounts.
- Operating an online portal where members can view account balances and make decisions such as opting out.
- Issuing annual statements to members at intervals of not more than 12 months.
- Dealing with payment of funds on retirement or on death before retirement.
- Responsibility for ensuring the scheme is compliant.
- Ensuring employer compliance with failure to meet AE obligations possibly resulting in penalties and/or prosecution.
- Facilitating a 'pot-follows-member' approach where employees will have only one account over their working life.
- Managing to keep fees and costs down through economies of scale over time. The maximum annual fund management charge is expected to be 0.5%.
- Monitoring and dealing with unclaimed balances after expiry of a dormancy period to a Dormant Accounts Fund.

The NAERSA will eventually become an independent, statutory body regulated by the Pensions Authority. It will also conduct evaluations and statistical analysis of the AE system and provide regular reports to the Irish Government.

Employees in Scope

The target is for AE to capture employees aged between 23 and 60 with earnings of more than €20,000 per year who are not in a work or private pension via payroll. It is estimated there are 750,000 people (1 in 3 people) in the Irish workforce who fall into this category.

Contributions will be phased in so that everyone can get accustomed to the system over time. When contribution levels reach the maximum rate, every €3 that an employee contributes will bring an employer contribution of the same amount with an additional State top up of €1. So, every €3 an employee contributes will result in €7 being added to their pension account. A 'pay reference period' will be used to determine if an employee is likely to reach the lower earnings threshold in a year.

There will be an upper earnings threshold of €80,000 and there will be provisions to cope with employees who may have more than one job. Gross pay from all jobs held will be

considered for AE eligibility, but employees will only be enrolled in respect of the jobs that do not have existing contributions to a work or private pension via payroll.

Pension accounts will be classed as defined contribution workplace pensions.

Phasing-in

In years one to three of AE, employee and employer contributions will each be 1.5% of gross pay.

This will double for years four to six to employee and employer contributions of 3% of gross pay.

From years seven to nine, employee and employer contributions will become 4.5% of gross pay.

After ten years of AE, employee and employer contributions will reach their maximum rate of 6% of gross pay. The State top-up will remain constant throughout at a third of the employee/employer contribution rate. Employees won't be able to contribute less than the set rates.

Initially, there are no plans to allow employees to make additional contributions. This may be addressed in a few years' time to assess if it is viable to introduce or not.

Example

As a basic example, here is how phasing-in will work for an employee earning €20,000 per year:

Years 1 to 3:

Employee contributions (1.5%) = €300 per year
Employer contributions (1.5%) = €300 per year
State top-up (0.5%) = €100 per year
Total contributions = €700 per year

Years 4 to 6:

Employee contributions (3%) = €600 per year
Employer contributions (3%) = €600 per year
State top-up (1%) = €200 per year
Total contributions = €1,400 per year

Years 7 to 9:

Employee contributions (4.5%) = €900 per year
Employer contributions (4.5%) = €900 per year
State top-up (1.5%) = €300 per year
Total contributions = €2,100 per year

Year 10 onwards:

Employee contributions (6%) = €1,200 per year
Employer contributions (6%) = €1,200 per year
State top-up (2%) = €400 per year
Total contributions = €2,800 per year

Employee contributions will be deducted from income after tax, whilst employer contributions will be eligible for offsetting against corporation tax.

Opting-in and Opting-out

Employees earning less than €20,000 per year or those outside the 23 to 60 age bracket will be able to opt-in, as long as they aren't already in a work or private pension via payroll. In terms of age, opting-in will be available to those between the ages of 18 and 66.

Once enrolled, employees have to remain in the system for a mandatory six months. They can choose to opt-out six months after being enrolled within a two-month window (that is, within months seven and eight) and would receive a refund of their own contributions. Employer and State contributions will not be refunded and will remain in the employee's pension account.

In the first ten years, employees will also be able to opt-out in months seven and eight after each of the planned contribution rate increases. The refund here will be based on the difference between the employee contributions at the old and new rates during the previous 6 months. Again, employer and State contributions will not be refunded

Contributions can be suspended or paused by employees at any time outside of these mandatory six-month participation periods. All contributions from an employee, their employer and the State will stop when this happens. In situations where there has been an opt-out or suspension of contributions, employees will re-enroll after two years assuming they are still eligible. These employees will be able to opt-out or suspend contributions again after 6 months, as described above.

Investment

The NAERSA will tender for four commercial investment companies to be Registered Providers (RPs) on contracts for between five to seven years. Each will be required to offer a defined set of four investment funds to members, categorised as:

- Conservative: consisting mainly of Government bonds, cash or cash equivalents, blue-chip private bonds and stock market index funds.
- Moderate risk: consisting of Government bonds, blue-chip equities, stock exchange indices and property.
- Higher risk: consisting of equities and property.
- Default: this will be for employees who don't make an investment decision and will

operate on a 'lifestyle/lifecycle' basis that will see risk levels reduce as retirement draws nearer.

All contributions nominated for a particular fund type will be pooled and distributed between the commercial providers. Similarly, all returns will also be pooled, meaning all employees opting for the same fund type will receive the same return in line with the contributions made by them and on their behalf.

Benefits on Retirement

Members will be able to access their pension accounts on attaining age 66, although it will be possible to request payment earlier due to ill-health (on incapacity or exceptional circumstances of ill-health).

As contribution levels will be low to begin with, this will mean retirement pots will initially be small. Members who retire will have a fund value that they may take as a lump sum or to invest in regulated drawdown products on the open market (such as annuities or approved retirement funds).

In future more benefit options are likely to be made available. For example, the NAERSA may develop 'mediated' drawdown products with these being offered as an option on retirement rather than being

mandatory. A default drawdown product could also be designed to accept funds where this would suit a member's circumstances.

Benefits on Death

On death before retirement, the funds held in a pension account will form part of the deceased's estate.

Regulation

AE will be supervised by [The Pensions Authority](#) in Ireland. Those enrolled will have access to the services of the [Financial Services and Pensions Ombudsman](#). Existing pension schemes will not initially have to meet any standards to create an AE exemption. Evidence of an employee and/or employer contribution via payroll will be enough to demonstrate that an employee doesn't have to be enrolled. As AE contributions increase, qualifying criteria may well be developed with the assistance of the Pensions Authority.

Future Development

In time, the AE system may be developed to become more sophisticated. Options may include:

- Reviewing AE eligibility rules and thresholds, including the possible introduction of qualifying criteria for existing schemes.
- Developing more investment funds.
- Offering partial investment across different investment funds.
- Allowing additional voluntary contributions.
- Providing more choice of retirement products and drawdowns.
- Introducing secondary benefits such as survivor benefits and injury or disablement benefits.
- Making pensions portable between AE and other Irish pension products.
- Expanding AE to include others such as the self-employed and the non-employed.

A Comparison

AE in Ireland is simpler than its UK equivalent. Here are some notable differences:

- Contributions are fixed at set amounts from the first pound of earnings with matching employee and employer contributions.
- The State top-up will result in everyone benefitting from the same percentage regardless of their income. There is no option to claim additional income-based tax relief.
- The age bands for becoming eligible for AE are narrower and the lower and upper earnings thresholds are higher.
- The opt-out period only opens after six months of being enrolled.
- Contributions can be paid into the same account on changing employment.
- Employees in an existing work or private pension via payroll will not need to be enrolled. There are currently no other qualifying criteria for existing schemes to meet.

Comment

In some ways, the Irish AE solution is similar to [Nest](#) in the UK. Of course, the UK system allows AE requirements to be met in different ways separate to the Nest scheme with many schemes and providers offering and running AE schemes and qualifying schemes that meet the set conditions.

Employers with employees and interests in Ireland and the UK will need to be aware of both AE systems and understand when the rules for each will apply.

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