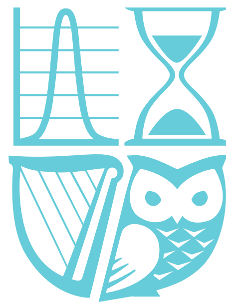


Society of Actuaries in Ireland

A Strawman Public Consultation Process for an Automatic Enrolment Retirement Savings System for Ireland

Response to Consultation Document issued by the

Department of Employment Affairs and Social Protection

November 2018

Preface

The Society of Actuaries in Ireland ("Society") is the professional body representing the actuarial profession in Ireland.

We welcome the opportunity to submit this response to the "Strawman Public Consultation Process for an Automatic Enrolment Retirement Savings System for Ireland".

Our response mirrors the structure of the Strawman, containing a specific section (4.1 to 4.7) for each of the seven topics covered, along with a concluding section where we provide information on items that, in our view, require further discussion/investigation.

We would be happy to respond to any questions on this response – please contact Philip Shier, Actuarial Manager, at Philip.Shier@actuaries.ie.

Introductory comments

The Society welcomes the publication of the Strawman Public Consultation Process for an Automatic Enrolment Retirement Savings System for Ireland (the Strawman). It represents a very strong starting point from which to design and implement a system that encourages the people of Ireland to make adequate financial provision for their retirement. We are happy to provide feedback on this document and look forward to engaging further on this topic in the future.

As set out in the Society's Initial Views on the Government's Roadmap for Pensions Reform 2018-2023, we consider that the two crucial objectives of the proposal should be to improve coverage and adequacy. We will look to identify any potential weaknesses within the proposals which could hamper the achievement of either of these objectives.

4.1 Administrative Arrangements and Organisational Design

We agree that the use of a Central Processing Authority (CPA) structure to give a single point/portal through which all employers and employees engage is sensible. It is essential that the CPA process is efficient, reliable and easy to understand, to build trust and confidence in the automatic enrolment (AE) system.

Under the Strawman, the CPA would act as the interface between employers and employees on the one hand and the providers on the other, and its primary functions would be to facilitate the automatic enrolment, opting out and re-enrolment of employees by employers, the selection by employees of their investment option and the collection and remittance of contributions (including Government contributions) to the providers. The maintenance of member records and accounts, and the investment of contributions in the chosen funds, would be the responsibility of the selected registered providers who are already active in this area.

We suggest that consideration should also be given to extending the scope of the CPA to acting as the (sole) administrator of the AE system. This is considered further in our response to Q3 below.

1. Is the rationale for use of a CPA sound?

The proposed CPA has two distinct roles:

- Selection of providers, determination of product features and setting minimum service standards
- Provision and ongoing management of the online portal which members are initially enrolled through and engage with on an ongoing basis, collection of premiums, etc.

These roles do not need to be carried out by the same body, and the skillset and people required for the roles are quite different, meaning there are likely to be limited efficiency gains from bundling these together. There are, however, risks that conflicts of interests might arise from housing responsibility for both roles within the same entity, which should be avoided wherever possible.

The ongoing supervision of the selected providers would best be undertaken by the existing regulatory authorities (Pensions Authority, Central Bank of Ireland).

We agree that providing a single portal for employers to use to upload contribution details and submit contribution payments is more efficient for employers, and is essential to a member-led model to avoid excessive complexity and cost on employers.

2. What are the potential strengths and weaknesses of a CPA structure? Do you believe that the CPA model proposed can be improved? If so, how?

Key strengths of the CPA as proposed include:

- It provides efficiencies to employers by:
  - Having a single interface for employers to engage with for all members, irrespective of the number of providers involved
  - Providing links to Revenue through the CPA, which will mean that employers can be informed when an employee meets the criteria for AE
  - Flagging to the employers when employees should be re-enrolled.
- It facilitates the employee-led model which will make 'pot follows member' a reality.
- It facilitates the use of existing infrastructure from commercial providers.
- Introducing 'pot follows member' will cut down significantly on the number of deferred member records which providers are required to manage, and so will reduce costs.
- The proposed model should facilitate the introduction of AE in a reasonable timeframe and in a manner that is cost-effective and relatively low risk for the taxpayer.
- The proposed structure should also ensure the competitive market drives efficiencies in the core administration functions into the future.

Potential weaknesses include:

- Managing initial and future tender processes for the role of registered provider
  - This will be a significant exercise for the State and may carry litigation risk.
  - If a provider is replaced by another following a retender exercise, practical difficulties and cost will arise in transitioning cohorts of members to new providers.
  - If there is a hard limit on the number of registered providers, this may create a barrier which makes it more difficult for new providers to enter this market and to introduce new technology.
- The proposed structure means that the administration and investment management will be combined under each registered provider. This may result in members being unable to access funds provided by the world's largest fund managers, as some registered providers may only offer funds from investment management companies within the same group.
- Pensions administration is complex and risky. Building the payroll interface and member portal will be difficult to complete in the timescales indicated in the Strawman.
- It is not clear that combining the two roles identified in Q1 above in a single entity will deliver significant efficiencies, and could lead to a perception that the CPA selects providers based on compatibility with the CPA processes rather than those that will provide the best offering to members.

3. If you don't agree with the CPA model, can you suggest alternatives?

We agree that the use of a CPA structure to give a single point/portal through which all employers and employees engage is sensible. It is essential that the CPA process is efficient, reliable and easy to understand, to build trust and confidence in the AE system.

We suggest that consideration should be given to alternative options for the administration and investment management, including:

- Sourcing administration and investment management services separately. This would allow the CPA to select best in class providers for each of these.
- The CPA acting as the (sole) administrator of the AE system. This would require the State to develop expertise in this area, to build or acquire appropriate infrastructure within the published timelines to allow the CPA to fulfil this role and to accept the potential risks and negative press it may receive if there are any administrative problems. Whilst the development of an administration structure would be challenging within the timescale available, this approach would address some of the issues which might arise if a number of existing commercial providers are appointed, and should in the longer term lead to economies of scale.
- The State establishing appropriate entities to carry out both the administration and investment management.

Each of these options would require further analysis to determine whether the benefits of each approach outweigh the potential risks, including risks to the proposed timelines for launching the AE framework.

4. Have you suggestions for how the operating costs of the CPA could be covered?

The costs of building and operating the CPA will need to be analysed in detail before a final decision is made on this point.

Initial design and development costs of a user-friendly online portal for members and employers are likely to be significant. It is unlikely that the income generated from charges on members' funds will cover this cost, as this will be low while members' funds remain small. We suggest that the set-up costs of the CPA should be borne by the State.

Regarding the ongoing costs of running the CPA, these will have to be assessed when there is a clearer picture of the level of administration the CPA will undertake. We suggest that it would be appropriate for these costs to be covered by the State.

The likely costs of running the CPA should be considered alongside other potential costs for the State e.g. the level of Government contribution, when finalising the structure of the AE framework.

As the AE framework matures, and member funds have built up significantly, it may be possible for the ongoing CPA costs to be funded by the AE system, which would reduce the risk that improvements or enhancements to the CPA portal would require political sign-off for the spend to be allocated.

5. **Is the use of commercial providers for the provision of retirement savings options the right approach?**

This is the most straightforward option for the launch of the AE framework. There is a well-established infrastructure of commercial pension provision in Ireland, with a relatively small number of providers and a competitive market.

As noted above, an alternative would be for the State to take greater ownership of the AE proposition by providing administration services (including member account administration, communication and advisory elements) itself, with only investment management being outsourced to commercial providers.

The State would need to consider carefully the initial and ongoing costs and risks of building a full pension administration capability and taking responsibility for selecting the investment solution, and compare those to the commercial alternative. The advantage of the State carrying out administration is that it may provide greater efficiency and avoid any issues which would arise with transferring member accounts between different pension administrators. However, it does carry a great cost to the State, as well as needing ongoing investment to keep up with changing technology, regulations etc.

6. **Is it appropriate to limit the number of approved AE Registered Providers, as proposed, in order to provide economies of scale and drive down unit costs?**

If commercial providers are used, we do not think that the number of approved AE Registered Providers should be limited, as this introduces an artificial limit on competition and on choice for members. All providers who meet the standards required should be allowed to participate in the market, with the overall aim of raising these standards over time to improve the offering for all members.

It is unlikely that this will lead to an unmanageable number of providers, given the high initial costs of building a pension administration capability in a small market and other potential barriers to entry. In our view, the economics of the market will effectively manage the numbers of providers and deliver economies of scale.

It is expected that the providers who participate in the AE market will be established pension providers/administrators who already have scale. For these providers, the marginal costs involved in participating in the AE market will largely arise from the increased number of individual members.

One argument put forward for limiting the number of providers is that too much choice would be confusing for members. Given the vast majority of members will go with the default investment option (as is the experience in the existing system), we think that a member who wishes to make an active choice should first choose between the providers and then between the investment solutions offered by that provider. So, with a clearly designed customer journey, the customer will select from a number of providers and then have a simple choice of three investment options. This will not result in a confusing range of options for customers.

In the scenario where the number of providers is limited to a set number, the introduction of a new provider will require the removal of an existing provider (even if is providing satisfactory service) which will trigger a mass member migration from the former provider to the new provider, despite the fact that members may have been satisfied with the existing provider. Removing the cap on the

number of providers addresses this issue as a new provider could be introduced without the need to remove one of the incumbents.

7. If so, is the maximum figure proposed of four providers, about right? Or should it be more or less, and if so, why?

N/A – see Q6.

8. Are there alternatives that can achieve the economies of scale required other than to select a limited number of providers by open tender?

The key factors in driving efficiency within the AE framework are making sure that it is clear exactly what services the CPA is/isn't going to provide, making it as efficient as possible and ensuring that it is easy to interact with in all functions it undertakes.

This will reduce costs and drive economies of scale for all parties involved.

As noted in Q3, another option which could be considered is for the CPA (or another State agency) to provide member administration and investment services.

9. What do you believe is the optimum governance structure for Registered Providers and why? (e.g. Master Trust or insurance based contract providers).

The Society believes that both Master Trusts and insurance based arrangements would be acceptable structures, provided they meet the appropriate governance requirements.

We are agnostic at this point as to which is the optimum form for a few reasons:

- There are no Master Trust regulations yet published. In our response to the Pensions Authority Consultation on the Regulation of DC master trusts, we expressed concern about some aspects of the proposals.
- We would comment that the main duties of a trustee in relation to DC provision are to ensure contributions are allocated to members; that the investment strategy is appropriate; that contributions are invested and benefits paid in a timely fashion and that members receive appropriate communications. As the CPA will likely specify the types of investment strategy allowed, and can require the provider to provide appropriate member communications, it is likely that the responsibilities of the trustees would be reduced, and that a trust based model may not add much value compared with a contract based approach.
- PRSAs are over-regulated and cumbersome; they could be valid options as the basis of AE provision if the simplification process improves their flexibility. In our response to the Interdepartmental Pensions Reform and Taxation Group consultation on Simplification and Reform, we set out our recommendations for an overhaul of the PRSA framework.

The question asks for an assessment of two product types, which are currently under significant review and, until we know the final structures, we are not in a position to form a view on their relative merits, or whether one or both should be offered.

The CPA itself would need to be subject to appropriate governance in relation to ensuring it properly allocates member contributions and that it ensures that employers remit contributions to it correctly and in a timely fashion.

10. Where a member elects not to choose a provider and fund option, is it appropriate to allocate them to the default fund of one of the AE Registered Providers on a carousel basis, or is there a better alternative you would suggest?

Our preference is for a model where an employer may, but is not required to, specify a preferred provider. In this case, if an employee does not choose a different provider, he/she will be allocated to this preferred provider. This may then encourage providers to engage with employees from a particular employer through work-place visits, etc.

Where an employer does not specify a preferred provider, and the employee does not make an active choice of provider, he/she should be allocated on the carousel basis as proposed.

11. What is an appropriate maximum limit on the level of administration/investment management fees?

In answering this question, we have assumed that costs of running the CPA are not included in the fees which would be subject to any maximum limit.

It is difficult to determine an appropriate cap on charges at this point when it has not been clearly defined how much of the offering will be provided by the CPA.

As mentioned in our response to Q3 above, one possible structure would be for administration and investment management services to be provided separately, in which event an appropriate charging structure could be

- A fixed annual amount per member for administration and
- Percentage of fund value for investment management.

This would give transparency in terms of how much the member is paying for different aspects of the arrangement.

Irrespective of the level or structure chosen, the aim of any maximum limit on charges should be to strike the balance between:

- Providing value for money for members, and
- Making this market sufficiently attractive to encourage providers to compete to provide the strongest customer offering – this would require that they can reasonably expect to cover their costs and also earn a return on the capital they invest that is not less than they could earn by deploying their capital in projects with similar risk levels. Providers will also consider factors such as the payback period, and the impact that low initial contributions and funds will have on this.

A low cap on charges creates the likelihood that only basic investment offerings will be made available, with the diversification benefit of exposure to asset classes that would typically be included in the best DC investment offerings possibly becoming a casualty of this.

Any cap should be set at a level which would not preclude asset classes which are appropriate as part of the investment solution for a DC scheme.

The remainder of our response to this question assumes that any cap will mirror the structure outlined in the Strawman, i.e. a percentage of the value of the fund.

The definition of what is/isn't considered a charge for this purpose should be specified clearly prior to any limit being set.

Based on the fact that we expect the majority of members to be allocated to a provider by carousel, and to invest in the default investment strategy, it is appropriate that a fee cap applies to the default investment strategy at a minimum.

Some observations we have on the proposed cap:

- The proposed level of fees of 0.50% is likely to be too low for the Irish market, and especially for the early years. We believe that a cap at this level is likely to lead to too conservative an investment approach (as has been observed in New Zealand).
- The proposed level is below that of the charge cap in the UK (a market which is more than 15 times the size of the Irish market).
- The proposed level of fees amounts to an average fee per member of €20 per annum over the first 5 years – based on a salary of €30,000.
- The more efficient the CPA model, the lower the charge cap that can be imposed.
- The fees charged by providers need to cover the costs of
    - Registered provider overheads
        - Member administration and record keeping
        - Member communications
        - Dealing with queries from members
        - Complaints handling
        - Processing retirement claims
        - Statutory reporting
    - Investment activity.

Excluding the costs of running the CPA, it is reasonable to expect that it would be possible to offer a basic service, with passive investment exposure, for 0.5% p.a. This would provide very little advice or support to members and very limited member communications. This may lead to very poor levels of member engagement, and carries a higher risk of poor member outcomes and/or increased opt-outs.

The proposed level of fees also creates risks to the stability of the system if the contribution increase schedule gets pushed out further due to political decisions over the coming decade. As well as potentially undermining the system, this could create significant liabilities for the State if the underlying contribution rate forms part of the contract with the registered providers

It may be that a cap in the range of 0.75% - 1% would be appropriate, which should be reviewed after a period of, say, 5 years to assess if technology improvements and growing member pots may warrant a lower fee.

12. What is the appropriate timeframe between each tender round (e.g. 5, 7, 10 years) and why?

It should be possible for potential new providers to apply to become registered providers under the AE framework relatively frequently with a view to allowing members to benefit from technological enhancements, etc. This process should happen more frequently than every five years (possibly every three years) and should be managed via a competitive tender process.

We do not agree that existing providers should necessarily be required to re-apply to retain their status, or that the addition of a new provider should result in the removal of an existing provider i.e. there should not be a limit on the number of registered providers.

The removal of an existing provider would necessitate moving members from one provider to another in bulk, which would be a significant process. 100,000 members could easily produce 3.6 million transaction records in one year. So a bulk transfer after 5 years could result in 18 million transaction records being migrated from one provider to another.

This will be a costly process. The DEASP should give consideration as to how such a migration would be funded (i.e. by whom), and ways to mitigate the impact of a bulk switch.

Mitigation can be achieved in two ways:

- Each provider should be required to meet the minimum required standards on an ongoing basis. There should be an annual review by the relevant regulator to ensure those standards are being met. Re-tendering after a fixed period is not necessary with this approach. Any issues would be identified earlier and could be remedied, before re-tendering as a last resort. Moving member accounts in bulk should only be necessary in circumstances where the provider ceases to meet minimum required standards and is unable/unwilling to make changes required to meet the agreed standards.

  Consideration should also be given as to whether it is necessary for a new provider to retain the record of member transactions that occurred prior to them taking over that record. This may be both complicated and costly. As an alternative, it should be considered whether the existing records could be uploaded onto the CPA for reference where required, to reduce potential costs for all parties.

- As suggested in our response to Q3, the CPA could perform the member administration i.e. record all of the member transactions (including investment transactions e.g. buys/sells/switches/etc). This means there is a single/central record of all members' transactions. Thus records would never need to be migrated - only the members' investments are switched from one provider to another.

13. Do you think the proposed timeframe for the roll-out of AE is reasonable and achievable?

It is not possible to give a meaningful response to the question given that there are still a number of aspects to be decided. However, we do think that it is good to have a published date for all to aim for, and that it would be challenging to put an AE system in place earlier than the proposed date of 2022.

14. Do you believe that employees should select their preferred provider or should employers be required to select a Registered Provider on their behalf?

We recognise that there are pros and cons to each approach as set out below:

Employee-led (pros)

- Gives direct ownership to employees, which will help to build engagement.
- Allows employees to stay with the same provider throughout their working life. ‘Pot follows member’ happens automatically.
- Also fits better for those who have more than one employer.

Employee-led (cons)

- Many employees will not research the available providers and will not make an active choice and hence will be given a default option.
- There may be higher marketing costs.

Employer-led (pros)

- Employers can engage in reviewing providers and selecting the most suitable for their employees.
- Each employer will have only one provider, so it is easier for providers to organise information sessions for members.

Employer-led (cons)

- Members have no say in provider choice.
- Members may be forced to move between providers when they move employment.
- ‘Pot follows member’ would be more difficult.

Our preference is for a model where an employer may, but is not required to, specify a preferred provider. In this case, if an employee does not choose a different provider, he/she will be allocated to this preferred provider. This may then encourage providers to engage with employees from a particular employer through work-place visits, etc.

Where an employer does not specify a preferred provider, and the employee does not make an active choice of provider, he/she should be allocated on the carousel basis as proposed.

4.2 Target Membership

The ultimate goal of AE is for everyone in the State to have an adequate level of income in retirement.

A key requirement of a successful AE system is encouraging and nurturing an ongoing savings habit within members – the goal of an adequate retirement income for all cannot be reached if the system doesn't manage to deliver this outcome. For this reason, the target membership and contribution rates should be designed to minimise any cliffs, where members see a reduction in their monthly take-home pay because they receive an increase in salary or pass a birthday which means they will now be automatically enrolled.

15. Should there be a lower/upper earnings threshold triggering automatic enrolment?

We recognise – as set out in Table 1 of the Strawman – that the State pension and secondary benefits will replace close to 100% of net pre-retirement earnings for all employees earning less than €15,000 p.a. For this reason, and allowing for the possibility that saving may simply not be affordable for people who earn less than this, it is reasonable that there should be a lower limit.

It is also reasonable that those with an income below this limit can choose to join the scheme.

Regarding an upper limit, if the intention is to increase coverage, then it makes sense for everyone who is not a current member of a pension arrangement which meets the prescribed minimum standards to be automatically enrolled, meaning there should not be an upper limit. However, we recognise that it may be considered necessary to impose an upper limit on employer and Government contributions to contain the costs of these parties.

16. If so, is the proposed earnings threshold of €20,000 p.a. above which members will be automatically enrolled into the system appropriate? If not, what would you propose as the earnings threshold and why?

The Strawman estimates that there are approximately 310,000 people between the ages of 23 and 60 earning below €20k with no supplementary pension.

Average hours worked per year is 1,738 hours from the following OECD report:

https://stats.oecd.org/index.aspx?DataSetCode=ANHRS

Minimum wage 2019 is €9.80 per week

Average hours worked *times* minimum wage is €17,032 per annum

Consideration should be given to setting the minimum salary threshold to approximately €17k.

- This is chosen as minimum wage *times* average working hours per year
- This would increase the number of lower income workers in the scheme – one of the key aims of the process.
- They would still have the ability to opt-out if they so desired.
- It would also reduce the likelihood of companies paying staff less than €20k in an effort to avoid AE requirements.

This would be straightforward to code into any system and would increase/decrease the threshold automatically with changes in the minimum wage/average hours worked.

Anyone who is not a current member of a pension arrangement which meets the prescribed minimum standards and who earns less than this should be able to opt-in and benefit from employer and Government contributions.

17. Do you agree with the proposal to review the earnings threshold on a five yearly basis? If not, what adjustment process would you propose?

Our preference would be for the earnings threshold to be reviewed annually, to maintain the limits at a constant real value, but it may be considered preferable for administrative reasons to have a longer interval; we consider that this should not be more than three years.

If the earnings threshold is increased, existing members earning less than this will continue in their scheme unless they choose to opt-out at this point. If they do opt-out, they should not be automatically re-enrolled if their earnings are below the threshold at the re-enrolment date.

18. Should there be a lower/upper age threshold for automatic enrolment?

We see no reason for the age limits as proposed.

We note that 7% of employees are below 23 and do not have a supplementary pension. We suggest that everyone in employment earning over the minimum threshold should be automatically enrolled. This means people get used to saving into the AE scheme immediately and don't see a reduction in their pay after their 23rd birthday. It also allows the fund to build up early as a buffer for potential savings suspension periods later on in life and so reduces the risk of being underfunded at retirement.

Regarding the proposed upper limit, even saving for a relatively short period is worth doing when your contribution is matched by the employer and there is also a Government contribution.

19. If so, are the proposed age thresholds appropriate? If not, what would you propose as the age thresholds and why?

As specified in Q18, we do not think there should be any age limits for automatic enrolment.

20. Should employees outside of the age/earnings criteria triggering automatic enrolment be able to opt-in?

Yes – everyone who does not satisfy the criteria for automatic enrolment, or is not a current member of a pension arrangement which meets the prescribed minimum standards, should be able to opt-in to benefit from both the employer and Government contribution.

21. How should those with more than one source of employment be treated?

They should be automatically enrolled if their aggregate earnings exceed the threshold. It will be necessary for the CPA to develop a process to notify the employers in such cases. Each employer should be required to contribute the required percentage of the employee's salary in respect of that employment.

22. Do you agree with the approach proposed for self-employed people? If not, what modifications would you propose?

Self-employed people represent approximately 25% of all those in employment without a supplementary pension – this is too large a cohort of people to exclude entirely. As a basic principle, they should be permitted to opt-in to encourage them to save for their retirement.

The proposed structure will need to be revised to better fit with the profile of someone who is self-employed – for example, ad hoc (i.e. non-regular) contributions may be necessary due to the variability of profit e.g. seasonal profits.

Consideration may be given to providing a separate framework for the self-employed, possibly with some flexibility to cater for business liquidity needs.

The employer/employee contribution rates may also need to be reconsidered for this cohort e.g. paying 6% employer and 6% employee contributions for business owners may not be feasible.

This is an area that requires further consideration.

23. Should people outside of the workforce (e.g. carers, homemakers) be eligible to opt-in? If so, suggest how that might work in terms of contributions, etc.

We agree that these groups should be allowed to opt-in.

In short, by introducing the ability to automatically enrol for this cohort:

- Coverage would increase and
- Savings would be encouraged.

The basis on which contributions are determined for such individuals will need further consideration – one possibility would be to specify a maximum monetary amount for a Government contribution and to allow those who opt-in and are below the earnings threshold to contribute up to the amount which would generate a Government contribution of this limit.

24. Should all eligible members be enrolled immediately on commencing employment?

In principle, everyone should be enrolled when they commence employment; however, this approach may lead to administration issues when dealing with employees on very short term contracts. To address this, it may make sense for everyone on anything longer than a three month contract to be automatically enrolled immediately.

We do not believe that a rule such as 'you have to be employed for x months before you are automatically enrolled' is sensible, as it would result in members seeing a reduction in take-home pay when they join the scheme.

For individuals employed on a permanent or long term contract subject to the completion of a satisfactory probation period of six months, we recommend that they are automatically enrolled (assuming they meet any age/salary thresholds) immediately and, in the event that their employment ceases at the end of the probation period, they can be treated as having opted-out at that date.

25. Should members of existing pension schemes be allowed to transfer into the AE system?

We read this as asking whether a member of an existing pension scheme should be able to cease contributions to that scheme and instead join an AE scheme.

This should be permitted, although there will be some scenarios where it may not be in the best interests of the member e.g. where the employer contribution to the existing scheme is greater than that being paid to the AE system. Consideration should be given to ensuring members make an informed decision.

If the same tax treatment (in respect of investment growth and drawdown options) and regulatory framework applies to both AE and the existing pension systems, it should be permissible for an individual to transfer accumulated savings from a pension scheme into the AE system and vice-versa.

4.3 Employer and Employee contribution rates

Contributions to the AE system should be set at a level which is expected to provide adequate retirement income for savers. In our paper "Initial Views on the Government's Roadmap for Pensions Reform 2018-2023", we discussed in some detail the levels of contribution which might be appropriate under various assumptions.

26. Do you agree with the approach to starting with a low level of contributions increasing on a phased basis to a higher level over a period of six years? If not, what approach would you propose and why?

Yes, we agree with this approach and feel that it is sensible. We feel a gradual adjustment makes sense from the behavioural response but also a wider macro-economic adjustment. We believe it likely the costs will be factors in pay negotiations over time (indeed, this was the very basis for the original Australian Superannuation system). Starting too high too soon could result in larger drop-out rates and be very counterproductive.

27. Do you agree with the proposed contribution levels? If not, what contribution levels would you propose and why?

The contribution rates are not unreasonable as a starting point. The final position of 6% from employee and employer and 2% from the State gives a reasonable contribution level compared to current norms. When comparing with current norms, it should be noted that in an existing pension arrangement where both employee and employer are paying 6% of salary, the total amount invested will be 12% of salary, compared to 14% under the Strawman.

Contributions at the level proposed in the Strawman, if maintained over the working life of the individual, would deliver a basic level of adequacy for lower to medium earners, but it would not be adequate for higher paid individuals for whom the State pension is a lower proportion of total income.

Continued education on the need for additional contributions should be central to the program.

We recommend that a review of the contribution rates should be carried out once the system is well-established to assess a fresh benchmark based upon up to date interest rates and longevity experience and other factors at that time.

28. Should there be an upper threshold on qualifying earnings along the lines described in the Strawman or should qualifying earnings be uncapped?

Assuming that any pension pot accrued under AE would be subject to the existing Standard Fund Threshold of €2m, we don't see why there is a need to cap qualifying earnings. If there is deemed to be a need, we don't understand why the cap should be different from the existing contribution salary cap of €115,000. For simplification reasons, the same thresholds should be used.

While we recognise the need to contain the cost, especially to employers, we feel the existing cap should be used, if a cap is required.

We also recognise that for a large number of employees the cap will be irrelevant anyway.

However, there are some higher paid employees who do not have alternative pensions and who will rely upon the AE solution as their sole retirement provision. We feel for these it is right the funding should not be constrained unduly so that they may build up an adequate pension.

29. Should the Irish AE system incorporate a 'disregard' such as used in the UK's AE system whereby earnings between £0 and £6,032 are not subject to a contribution requirement? If so, why do you believe a 'disregard' should apply and at what level?

No, we believe this would complicate the current simple proposal. Also, it appears likely that the UK will remove this exemption over the coming years; a review group has proposed that it be removed by the mid-2020's.

30. Should employer matching contributions be required for those outside the automatic enrolment age/earnings trigger criteria, who choose to opt-in?

Yes. The employer should be required to match contributions up to 6% for all employees (up to any cap) in the system. We feel it would be unfair for people who do not meet the age or salary requirements to be excluded from the benefit of employer and Government contributions.

4.4 Financial Incentives provided by the State

As mentioned in our introductory section, the aim of the combined retirement savings framework is to help members to save an adequate amount for retirement.

Within the AE framework, the purpose of the financial incentive provided by the State is to encourage members to contribute to the scheme throughout their working lives. Based on this, the easier to understand and more generous the financial incentive provided by the State, the more likely it is that members will continue to pay contributions. However, care must be taken that introducing AE does not undermine the coverage or adequacy of retirement saving of those who already do so under the existing pension framework.

In our paper "Initial Views on the Government's Roadmap for Pensions Reform 2018-2023" [which was finalised before the Strawman was published] we noted that:

The proposed approach of making a Government contribution rather than granting tax relief on personal contributions may be more easily understood. This may be an advantage in an automatic enrolment system.

If this approach were adopted, it does not necessarily mean that this should be extended to the existing pension system. There is precedent for maintaining different retirement tax systems side by side in other jurisdictions. For example, in the UK, people can save tax efficiently in several different ways:

- *Net pay approach: Contributions made to a pension scheme are tax-free up to certain limits;*

- *Relief at source approach: Under this route, the individual benefits from a 25% top-up on contributions (subject to limits), regardless of their tax position; and*

- *Individual Savings Account (ISA): After-tax savings (subject to a limit) are invested in an ISA. Any gains are free from tax while the tax rules on withdrawal depend on the type of ISA. For example, savings can be withdrawn from a Lifetime ISA tax-free from age 60.*

If there is a desire to introduce a SSIA top-up approach, the Society would advocate the UK approach, which has extended coverage without damaging existing provision, by introducing the top-up as an additional option rather than a replacement for marginal rate tax relief.

Under the existing system, an employee's contributions to a pension scheme enjoy, subject to some limits, relief from income tax at the employee's marginal rate. An employer's contribution is not treated as BIK. We are strongly of the view that this approach is appropriate for the existing pensions system as it incentivises those who wish to save for an adequate pension in retirement to do so, particularly those on middle incomes who are subject to higher rate tax. It establishes consistency between tax relief on contributions and taxation of pension payments and avoids double taxation i.e. employees are not subject to USC or PRSI on the employer contributions.

We recommend that there should be a similar financial incentive provided to those who do not currently save for retirement, who will enter the AE system. It would be possible to operate AE using the existing approach of granting relief on the member contributions at the employee's marginal rate. An advantage of this approach would be that individuals who had a choice between a pension scheme and the AE system would not need to take into account different tax incentives.

We recognise that the existing system does not provide any incentive to save to those who do not pay income tax, although it is unlikely that many in this position will be in a position to save voluntarily for retirement in any event. In order to provide an incentive under AE for those who do not pay income tax, it would be necessary to adopt the approach of expressing this as a Government contribution as is proposed in the Strawman.

31. Do you agree with the Strawman approach to State incentives – i.e. a potential State bonus top-up based on matching member contributions with a payment of €1 for every €3 they save?

We agree that the approach outlined in the Strawman is a practical and easy to understand approach. As noted above, the AE system could be operated within the existing system whereby tax relief is available (within limits) at the individual's marginal rate. In order to provide an incentive for those who do not pay income tax, it would be necessary to adopt the approach of expressing this as a Government contribution or a €Saver's Bonus. Furthermore, in order to be consistent with the current system of marginal tax relief, it should be possible for higher rate taxpayers to claim the difference in their year-end tax returns.

32. What level of top-up or State incentive would you propose?

This should be guided by customer research to strike the correct balance between providing an incentive that members see as valuable and provides value for money for the State.

33. If you don't agree with the 'top-up bonus' approach what type of incentive would you propose?

As noted above, the AE system could operate within the existing system whereby tax relief is available (within limits) at the individual's marginal rate.

34. Is it appropriate to cap State incentives? If so, what should be the value of this cap?

We recognise that it may be necessary to put a cap on State incentives, and agree that this cap should impact on higher earners. We consider that the caps which apply in the existing system (e.g. that tax relief is limited to employee contributions of a specified percentage of earnings up to €115,000, and that pots in excess of the Standard Fund Threshold are subject to a tax penalty) should be reflected in the AE system, and we do not consider that it would be appropriate to have caps at materially different levels in the two systems.

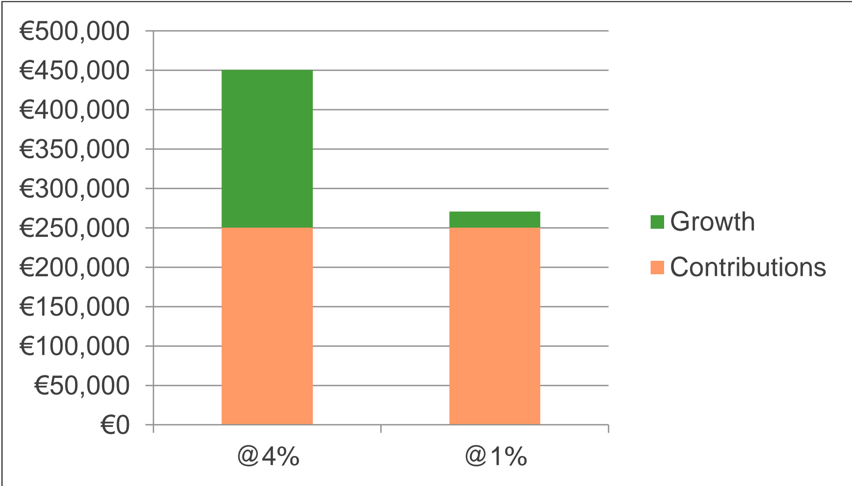
4.5 Investment Options

In this Section we have set out our initial high-level thoughts on investment matters in the context of AE and have answered the questions raised in the consultation. We believe, however, that investment is an area that requires considerably more analysis and debate before the final AE framework is developed.

One of the key factors for members regarding the adequacy of their fund in retirement is the level of investment return they achieve. To illustrate the importance of investment return, consider a saver who is:

- 30 years old
- With a salary of €30,000 (escalating at 2.5% p.a.)
- Joining AE in 2022 and retiring after 38 years
- Being charged 0.5% of the fund annually to cover investment and administration costs.

The breakdown of the fund at retirement between contributions paid (employer, employee and Government) and investment growth, for two illustrative annual growth rates, is shown in the chart below:



It is clear from this example that a low rate of return leads to a significantly lower fund at retirement. This is particularly important where savings are made over a long period e.g. in excess of 30 years.

In the context of long-term retirement savings, it is not appropriate to describe cash/deposit-like vehicles as 'low risk', as the low returns they offer increase the risk of a member's fund being inadequate for their needs in retirement. It should also be noted that the returns on these funds are currently close to zero and are negative after charges.

Members should be educated and encouraged to invest in assets that are likely to both keep pace with inflation and provide a real return over the medium/long term.

Given the likelihood that the vast majority of members will be invested in the default investment strategy, we believe that this strategy should be designed to do the following:

- Provide exposure to asset classes that can be expected to generate a reasonable level of return over the long term to provide adequacy in retirement
- Reduce risk by diversifying investment across asset classes
- Be transparent and simple for the members to understand
- Build confidence in the system initially, given that most people will not have been in a pension scheme before
- Be liquid, equitable and flexible i.e. if an individual consumer, or the Government, wants to switch to another fund, this should be possible.

35. Do you agree with the suggested approach to limiting the AE Registered Providers to offering three 'standard choice' DC savings options with one fund acting as the default?

We agree with the approach of restricting each provider to offering three funds initially.

However, we have the following issues with the proposal as drafted in the Strawman:

- The labelling of funds is misleading.
  - As mentioned in the introduction above, the term 'low risk' can be particularly misleading and should be avoided.
  - We recommend that funds that invest 100% in cash should be referred to as 'Low Return'.
  - For funds that do not invest 100% in cash, we recommend that the AE system should adopt an approach consistent with the wider retirement savings market, e.g. ESMA ratings, where volatility is used as a measure of risk levels. Under this:
    - The fund described as 'moderate' risk in the Strawman would typically be 'Medium to High' risk.
    - The equity fund described in the Strawman as 'medium' risk would typically be 'High' risk.
- As shown in the example above, achieving a real investment return is crucial to delivering adequate retirement funds for members and we do not consider it appropriate that the default option should be a low risk fund.

In our view, the default fund should be designed first, with this design informing the decisions regarding the cap on charges. In this context it should:

- Be a diversified fund with exposure to a range of asset classes to reduce risk
- Have significant exposure to assets that are expected to deliver a real return over the long term
- Have regard to environmental, social and governance (ESG) issues.

We consider that an appropriate structure would be a lifestyle structure which de-risks as a member approaches retirement. In this case, careful consideration must be given to

- the period over which the funds de-risk and
- the landing point i.e. the target asset allocation at retirement date should be appropriate for the drawdown approach that the member is likely to choose for the payment of benefits in the decumulation phase.

An alternative approach that could be considered would be a "smoothed" fund which could continue into the decumulation phase. In this case, lifestyling would not be required. However, further analysis of the feasibility of this approach would be required.

We suggest that consideration be given to using a cash fund, or other low risk fund, for the investment of contributions paid in the first two or three years of AE to minimise the risk that members see a significant fall in the value soon after enrolling.

Providers should also be required to offer a lower risk fund which could be 100% cash, or might have some exposure to bonds, including inflation linked bonds. This fund should be labelled 'Low Return' to avoid members opting into this without understanding the potential consequences.

In addition, providers should offer a higher risk fund, which might have 100% equity exposure, and should be labelled 'High Risk'.

The option of adding more funds could be considered in time once the system is established and it is clearer whether there is significant demand for this.

If members who do not make a choice are defaulted on a carousel basis, similar employees of a single employer may be allocated to different providers' default funds, and if the funds produce materially different returns over short periods, this may cause concern and generate a lack of trust in the system. This would be addressed by our proposal outlined in Q10 that an employer may select a preferred provider, but some employers may not wish to do so. If the possibility of widely differing returns on the default funds offered by the different providers is considered to be a concern, it could be addressed by the CPA specifying very narrowly the parameters for the default fund e.g. asset allocation ranges, tracking errors etc. but this would restrict the ability of providers to add value in designing their default funds.

36. If not, what retirement savings options do you consider should be provided?

As discussed in our response to Q3 above, the proposed structure for the CPA, where the administration and investment management services are bundled together, may result in some of the world's largest asset managers' funds not being available to members as each registered provider may only offer funds from companies within their own group.

We suggest that consideration be given to separating the provision of these services, as this would facilitate any underperforming providers being replaced without impacting on other services which may be performing strongly.

Alternatively, it would be possible for the State to assume responsibility for the investment options and to source the providers itself.

Under this structure, the State could be responsible for sourcing investment management services, using the buying power of total AE funds to maximise economies of scale.

37. An alternative to conventional DC is the target benefit approach – do you believe that a target benefit approach merits consideration as one of the 'standard choice' options for the AE Registered Providers?

Our understanding of a target benefit approach is that the rate of contribution to be paid for each member is determined having regard to his/her period to retirement and funds accumulated to date, and is reviewed on a regular basis. We do not see how a such an approach can work within the AE system, if stability and predictability of contributions are considered important. In particular, it would be challenging to communicate to members on an ongoing basis.

38. Do you agree with the approach to provide for maximum annual management and investment charges at 0.5% of assets under management?

In answering this question, we have assumed that costs of running the CPA are not included in the fees which would be subject to any maximum limit.

It is difficult to determine an appropriate cap on charges at this point when it has not been clearly defined how much of the offering will be provided by the CPA.

As mentioned in our response to Q3 above, one possible structure would be for administration and investment management services to be provided separately, in which event an appropriate charging structure could be

- A fixed annual amount per member for administration and
- Percentage of fund value for investment management.

This would give transparency in terms of how much the member is paying for different aspects of the arrangement.

Irrespective of the level or structure chosen, the aim of any maximum limit on charges should be to strike the balance between:

- Providing value for money for members, and
- Making this market sufficiently attractive to encourage providers to compete to provide the strongest customer offering – this would require that they can reasonably expect to cover their costs and also earn a return on the capital they invest that is not less than they could earn by deploying their capital in projects with similar risk levels. Providers will also consider factors such as the payback period, and the impact that low initial contributions and funds will have on this.

A low cap on charges creates the likelihood that only basic investment offerings will be made available, with the diversification benefit of exposure to asset classes that would typically be included in the best DC investment offerings possibly becoming a casualty of this.

Any cap should be set at a level which would not preclude asset classes which are appropriate as part of the investment solution for a DC scheme.

The remainder of our response to this question assumes that any cap will mirror the structure outlined in the Strawman, i.e. a percentage of the value of the fund.

The definition of what is/isn't considered a charge for this purpose should be specified clearly prior to any limit being set.

Based on the fact that we expect the majority of members to invest in a default investment strategy, it is appropriate that a fee cap applies to the default investment strategy at a minimum.

Some observations we have on the proposed cap:

- The proposed level of fees of 0.50% is likely to be too low for the Irish market, and especially for the early years. We believe that a cap at this level is likely to lead to too conservative an investment approach (as has been observed in New Zealand).
- The proposed level is below that of the charge cap in the UK (a market which is more than 15 times the size of the Irish market).
- The proposed level of fees amounts to an average fee per member of €20 per annum over the first 5 years – based on a salary of €30,000.
- The more efficient the CPA model, the lower the charge cap that can be imposed.
- The fees charged by providers need to cover the costs of
    - Registered provider overheads
        - Member administration and record keeping
        - Member communications
        - Dealing with queries from members
        - Complaints handling
        - Processing retirement claims
        - Statutory reporting
    - Investment activity.

Excluding the costs of running the CPA, it is reasonable to expect that it would be possible to offer a basic service, with passive investment exposure, for 0.5% p.a. This would provide very little advice or support to members and very limited member communications. This may lead to very poor levels of member engagement, and carries a higher risk of poor member outcomes and/or increased opt-outs.

The proposed level of fees also creates risks to the stability of the system if the contribution increase schedule gets pushed out further due to political decisions over the coming decade. As well as potentially undermining the system, this could create significant liabilities for the State if the underlying contribution rate forms part of the contract with the registered providers.

39. If not, what approach to management and investment fees would you propose?

In answering this question, we have assumed that costs of running the CPA are not included in the fees which would be subject to any maximum limit.

It is difficult to determine an appropriate cap on charges at this point when it has not been clearly defined how much of the offering will be provided by the CPA.

It may be that a cap in the range of 0.75% - 1% would be appropriate, which should be reviewed after a period of, say, 5 years to assess if technology improvements and growing member pots may warrant a lower fee.

40. Do you agree with the proposal to allow members switch between funds?

We agree that this should be possible, but that this must be considered in the context of the significant efficiencies the AE framework promises to provide.

We suggest that members should be free to choose to split their contributions between the three funds available from their chosen provider, and to transfer accumulated funds between the options available from that provider.

It should not be possible to split contributions across providers, as under 'pot follows member' there should only be a pot with one provider at any one time.

We agree that members should be able to switch providers at any time. In this context, given the principle of 'pot follows member', what we mean by "switching between providers" is:

- directing future contributions to the new provider and
- transferring the funds built up with the existing provider to the new provider.

4.6 Opt-out and Re-enrolment

To encourage efficiency and economies of scale, the solution here should be workable and simple to administer for all parties. In particular, the CPA should be responsible for the monitoring of re-enrolment dates and communicating this to employers.

The Strawman proposes that a member may opt-out after six months and get employee contributions back (less a deduction for charges). This is similar to "cooling-off".

There are a number of other circumstances when a member might be permitted to opt-out of an AE scheme:

- The member might cease to meet the qualifying requirements for AE e.g. earnings fall below the salary threshold.
- The member may change employment to a new employer who operates a qualifying scheme which he/she joins.

We presume that in both of these situations the member would be permitted to cease contributions to the AE system, and would retain his/her accumulated funds within the AE system. In the second case, it should be possible for the member to transfer his/her funds into the new employer's scheme for consistency with the principle of 'pot follows member'.

There may also be circumstances where a member wishes to cease contributions to the AE system for a period, due perhaps to additional financial commitments. The Strawman proposes that this be addressed by means of Savings Suspensions, with the member's fund remaining invested in the AE system, and contributions recommencing at the end of the Savings Suspension period.

Consideration might be given to permitting a member, in specific circumstances e.g. buying a first home, to have a Savings Suspension and also to withdraw a portion of the accumulated fund. This would help to address concerns which younger savers might have about "locking away" their savings and might help to reduce the number who opt-out.

41. Do you agree with the concept of a minimum compulsory membership period and that six months is an appropriate minimum period?

We agree with a minimum compulsory membership period to help members to become familiar with saving and also with the deduction of AE contributions from their pay, which will represent a reduction in their take home pay for the initial rollout.

A period shorter than six months may not be sufficient to encourage members to stay enrolled. It will also be sufficiently long for members to see the material monetary benefit they are receiving through employer and Government contributions.

Consideration should therefore be given to how the CPA displays benefits so members see 'free money' which may help to discourage opt-outs. For example, a member who accesses the portal with the intention of opting out might receive a message saying "if you opt-out now, we will give you back €1,000 but if you continue to contribute, you will have €2,333 in your savings account".

Consideration should also be given to the time of year AE starts e.g. may want opt-out window to avoid times like back to school/Christmas etc.

42. What is your view on an opt-out window of two months in months seven and eight of membership?

We agree that there should be an opportunity for members to opt-out after the minimum period of membership and get their money back (possibly with a deduction for costs), similar to a 'cooling off' period.

The Strawman states that a member who opts out in the window receives a refund of personal contributions less management fees.

The impact of market movements during the minimum compulsory period should be considered, as under the proposal, downward movements during this period will have to be funded by either the CPA or the registered provider. This could potentially be offset if any positive movements are not passed to members who opt-out.

As an alternative, funds could be invested in cash until the end of month eight, where the member can no longer choose to opt-out and receive a return of contributions, but this would result in all members, the majority of whom we expect to remain enrolled, missing out on any fund growth over this period.

It is essential that a member who opts-out, and becomes entitled to a refund of personal contributions less management fees, receives this amount within a reasonable timescale. This will be of particular importance where the member has opted out due to affordability issues. For this reason, the process adopted to process such refund payments should be as simple and efficient as possible; for example, consideration could be given to paying the refund direct to the individual (if he/she provides bank details to the CPA) rather than returning the funds to the employer and requiring the employer to reimburse the employee via the payroll process.

The proposed structure of an opt-out window of two months could cause a huge focus on opt-outs at this time and could result in a high percentage of opt-outs. The Strawman indicates this is the only opt-out opportunity. This may encourage a very high level of opt-outs as members may be concerned that they will otherwise be 'locked-in' to the system indefinitely.

Opt-out rates are likely to be lower if there are other opportunities to opt-out later as members may be inclined to leave as is to see what happens or just don't get around to opting out within the window. However, we agree that anybody who opts out after the end of the window should not receive a refund of their contributions, but that their accumulated fund should remain invested in the AE system.

In the UK, the staggered roll out of AE meant there was not a mass focus on opt-out through media or otherwise, whereas the Strawman proposes that AE commences for all at the same date in 2022. If, for example, AE commences on 1 January 2022, the opt-out window for all will open on 1 July 2022 and is likely to feature in the media at that time.

The rollout of AE will mean that the first opt-out window will be at a time that members contribute 1%. However, once AE is fully rolled out from 2028, new members will contribute 6%. We could expect that opt-out rates in 2022 will be artificially low when compared with the longer term rollout of AE as members will find it more difficult to deal with a 6% deduction in their take home pay.

43. Do you agree that people who opt-out should be automatically re-enrolled after a defined period (e.g. three years)?

We agree that those who opt-out should be automatically re-enrolled, and that re-enrolment after a defined period e.g. three years makes sense. We presume that the CPA will alert employers in advance of the three-year anniversary to the need to re-enrol such employees and inform the employees that they will be re-enrolled. The Strawman states that each re-enrolment would lead to a further six months minimum compulsory membership, following which the individual could again opt-out and get a refund of contributions less charges.

Consideration could also be given to requiring an employer to automatically enrol a new employee on commencement of employment (if he/she meets the requirements for AE), even where the individual opted out less than three years previously.

We presume that an individual who has opted out may voluntarily opt back in at any time. It might be thought helpful to remind such individuals of the opportunity to re-join AE e.g. if they get a salary increase.

44. Do you agree with the concept of allowing members to take a period of Saving Suspension? If so, are there specific conditions that should attach to such suspensions?

Our analysis of experience in New Zealand (sourced from the KiwiSaver annual report 2017) is that while over 40% of members are not currently contributing, this includes a range of categories of member, including members in the decumulation phase. The proportion of members actually availing of a Saving Suspension period appears to be of the order of 4%.

We agree with the concept of allowing members to take a period of Saving Suspension but feel that, even if a large number of members may not exercise this option, defined rules should still apply to ensure adequacy is not materially impacted for those who avail of a Savings Suspension period.

In our view, Savings Suspensions should have the following features:

- They should last for a specific time period, e.g. six months, after which the contributions will automatically restart.
- There should be prescribed permissible minimum/maximum lengths of a Saving Suspension.
- There should be a maximum number of Saving Suspensions that a member can take, e.g. can take a maximum of 5 over your lifetime.

Some issues that need to be considered are:

- the administration for ceasing and restarting contributions should be managed through the CPA and should be as simple as possible.
- employer/Government contributions should cease when an employee is on a Saving Suspension.

45. Do you agree with the approach which sees employer and State contributions retained/credited to the CPA to contribute to its costs, in the case of member opt-out?

We assume that this proposal relates only to situations where an employee opts out in the proposed two month window, and receives a refund of personal contributions less management fees.

We do not agree that employer contributions should be retained in such cases to contribute to meeting CPA costs and it would seem more appropriate that they be returned to the employer.

Our views on the funding of the CPA are outlined in Q4 above.

4.7 Arrangements for benefits and pay-out phase

We believe that the post retirement options offered through the AE system should be consistent with prevailing pension / Revenue provisions.

We believe that the current framework for drawdown of benefits requires a fundamental review. The Society has responded to the Interdepartmental Pensions Reform and Taxation Group's (IDPRTG) Pensions Consultation and in particular our responses to questions in "Section A – Simplification & Reform" and "Section C – Approved Retirement Funds" set out our views on some of the topics raised in the Strawman on arrangements for benefits and the pay-out phase.

Some general points on the text included in Section 4.7 of the Strawman:

- The charge cap on management / investment fees of 0.5% p.a. for investment funds seems too low. This could lead either to inappropriately low investment risk (which we believe to be a feature of certain AE regimes), or not adequately diversified investments.
- Advice for individuals has a particular importance at the point of and post retirement, as their accumulated fund should be considered in the context of their overall financial situation and any requirement for such advice would not be economic for providers to offer within the proposed charge cap of 0.50% p.a. It is important that those advice services be available to individuals and that they are not excluded solely due to a very low charge cap level.

Transparency of charges (and how they are comprised) is just as important, as consistent disclosures would enable individuals to compare across the market if they so wish. Advice will be critical for those individuals with low understanding of their potential retirement benefits and investment matters generally.

46. Do you agree that Registered Providers should provide a standard range of investment/draw-down options?

We believe that post retirement options offered through the AE system should be consistent with prevailing post retirement provisions, subject to our proposals to simplify/improve the current post retirement regime as set out in our separate feedback on the IDPRTG consultation.

Registered Providers should not be required to provide the investment / drawdown options, but these should be available to the member at retirement e.g. by purchasing an annuity from an insurance company or transferring to an ARF with a QFM. Not all providers would be in a position to offer annuities, for example, and any requirement that all providers must offer the full range of drawdown options would unnecessarily restrict future competitiveness for potential investment providers to be considered by the CPA.

If this is to be administered through the CPA, then this will require further development of the CPA functionality.

Currently, individuals can access the open market to avail of the best terms for their chosen retirement benefits. There may be some scope to achieve economies of scale for particular post retirement terms negotiated by AE providers.

47. Should members be allowed to allocate their accumulated fund across all of these post-retirement options?

The options available to retirees from the AE system should be the same as those available under the existing pensions framework, and any changes to that framework (such as those suggested in our response to the IDPRTG consultation) should also apply to AE retirees. There is no reason for separate, different treatment of post retirement options for AE members.

48. Should members be required to invest a minimum proportion of their accumulated fund in a lifetime annuity (pension)? If so, in what circumstances?

The options available to retirees from the AE system should be the same as those available under the existing pensions framework, and any changes to that framework (such as those suggested in our response to the IDPRTG consultation) should also apply to AE retirees.

49. Do you agree that the appropriate age to grant access to the retirement draw-down products is the State pension age? If not, what age would you suggest?

The options available to retirees from the AE system should be the same as those available under the existing pensions framework, and any changes to that framework (such as those suggested in our response to the IDPRTG consultation) should also apply to AE retirees.

In our submission to the IDPRTG consultation, we recommended that maximum flexibility be provided in relation to drawdown, which should be permitted at any age between 50 and 75 (subject to any contractual retirement age provisions).

50. Do you agree that early access to accumulated retirement savings should be provided on the grounds of ill health and enforced workplace retirement. If so, under what conditions and from what age?

We agree that early access to accumulated AE retirement savings should be provided on the grounds of ill health, as is the case with existing pensions.

'Enforced workplace retirement' does not appear to be defined in the Strawman and so that definition would need to be considered, and it would need to be consistent with wider pension rules.

As noted in our introductory comments on Section 4.6, consideration could also be given to providing access to a portion of the accumulated fund before retirement e.g. to provide a deposit for the purchase of a first home.

Further considerations

There are a number of important issues which are not directly addressed in the Strawman but which will need careful consideration as AE is rolled out. For completeness, we set out these issues below and we would be delighted to discuss these with the Department in due course as the process develops.

Employer compliance

The CPA will need to establish a process to identify employers who have not automatically enrolled eligible employees, and to prevent employers encouraging employees to opt-out. There may also be instances where remuneration packages are restructured to keep employees below the minimum salary threshold, which we consider should be discouraged.

The sanctions for employers who do not comply with the requirements, and the body responsible for enforcing the requirements, will need to be made clear, although it would be advisable to adopt a lighter touch at outset to give employers time to get to grips with the requirements.

Data protection

As personal data will be obtained through the CPA and potentially transmitted to registered providers, care will need to be taken that data protection breaches do not arise.

If the CPA identifies an individual who has more than one employment, and advises his/her employers of this to ensure that each of them treats him/her as being eligible for automatic enrolment, does this breach the individual's confidentiality?

Member engagement

It will be essential that the CPA portal displays the member options in a manner which is fair, clear and not misleading. Who will oversee this and who would have responsibility for adjudicating on any complaints e.g. if one of the providers considered that their offerings were being presented in a poor light?

Who will deal with queries on the AE framework itself? We recommend that the DEASP produces detailed guides for employers in advance of roll-out and addresses any issues which arise in practice, which may require legislative amendments.

The use of the CPA portal provides an opportunity for all member communications to be streamlined e.g. member statements could be provided in electronic format via the portal, rather than requiring providers to post paper copies to each customer (although these should still be available on request).

Coverage will be improved by automatic enrolment but, depending on where any thresholds are set, there will still be a significant number of people who are not subject to automatic enrolment but have the ability to opt-in, and coverage (and adequacy) would be increased further if a good proportion of these did so. How will this market be serviced i.e. who will sell the concept of saving for retirement through the AE structure to them?

Interaction between AE and the existing pensions system

AE is presented as a stand-alone system which will apply to anybody who “is not a current member of a pension arrangement which meets the prescribed minimum standards” but many individuals will have a choice between the two systems and may move from employers with schemes to those in the AE system and vice-versa.

To achieve ‘pot follows member’ for individuals who spend periods of time with employers who offer pensions schemes and employers who rely on the AE system requires transfers of pots between the two systems to be permitted, which in turn is only possible if the same tax treatment (in respect of investment growth and drawdown options) and regulatory framework applies to both AE and the existing pension systems.

The Strawman states that if an employee makes contributions in excess of the minimum requirements, “the State may also make additional contributions subject to a maximum level of contributions of 2% of annualised salary”. This limit is considerably below the level of tax relief which would be available within the existing pension system (e.g. contributions to an occupational pension scheme of 15% of earnings (limited to €115,000) would currently attract marginal rate relief and higher contribution percentages apply for employees aged 30 and over) and would make it less attractive for an employee to make regular or once-off Additional Voluntary Contributions (AVCs).

There are a number of practical issues to be addressed in relation to determining whether an individual employee should be exempt from the AE requirement on the grounds that he/she is “already contributing to supplementary pensions”. For example, if in the supplementary scheme the rate of employer and employee contribution is 3% of salary each, what happens in year 4 of AE? Will DC plans need to be certified to be AE exempt? How will charges in the DC scheme be allowed for in the comparison e.g. what if members have policy fee deductions? How will DB schemes be assessed? What if the employee is in the fortunate position of being in a non-contributory scheme (but where the employer pays, say, 15% of salary)? What if the employee opts out of the supplementary scheme at some future date – how does the system recognise that he/she is now subject to AE?

General mechanics of AE

If there is a lower earnings threshold which is expressed as an annual earnings figure, how is this managed in the case of an employee who works irregular hours, or on a seasonal basis? There will be weeks when his/her earnings are below the weekly equivalent of the threshold, and weeks when it will be above. In the UK, the employer has to test whether an employee exceeds the threshold on a weekly basis, but we strongly recommend that a simpler approach is taken here – perhaps using some approximate method and dealing with any underpayment or overpayment as part of the year-end tax returns, based on P60 earnings.

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