Irish Life

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How does the Government's proposed new **Auto Enrolment Retirement Savings Scheme** compare to existing Pension Schemes?

The Government plans to launch a new Auto Enrolment (AE) Retirement Savings Scheme at the end of 2023. Any worker who meets the eligibility criteria and isn't currently benefitting from a workplace pension scheme will automatically be included in the proposed new AE scheme. The final design of the AE scheme has not been fully decided but the Government has published the high-level design principles.

We have used those design principles to collate the comparison table below to enable those involved in the corporate benefit space to begin comparing the proposed new AE scheme to existing workplace pensions (both DC plans and master trusts) across some key features.

The table below is based upon what we know to date, with more details to come, as more information emerges.

Feature	Existing Defined Contribution (DC) Pension Schemes	Proposed AE scheme (based on March 2022 design principles)	Comment
Criteria for including employees	Complete flexibility on which employees are included. Once the AE system is introduced, any employees who aren't part of the DC scheme, and who meet the AE criteria will have to be included in the AE scheme.	Fixed criteria – all workers who are over age 23, earning over €20,000 p.a. (across all Irish employments), and don't have an existing workplace pension scheme will automatically be included.	The criteria for entry to AE appears reasonable. However, the practical challenges of implementing the rules are considerable and we would be concerned as to how the Central Processing Agency (CPA) can build a system that is easy for employers to use with such a short lead in time.
Contribution Rate	Flexible on the rate of member and employer contributions (up to very high Revenue maximum levels) and on what earnings contributions are based on. Members can also make Additional Voluntary Contributions (AVCs). Employee contributions are made from their gross pay i.e. they don't pay income tax on the earnings they contribute to their pension.	Rigid contribution rate structure with contribution rates starting at 3% of earnings in 2024 and rising to 12% in 2034 (contributions are a combination of employee and employer rates). All earnings (basic pay, shift pay, overtime, bonuses etc.) must be included up to €80,000 p.a. No additional contributions are allowed. Employee contributions are taken from their after-tax pay.	The rigid contribution structure in AE, including a 12 year wait (2034) until contributions reach the AE maximum level, will not appeal to most employers or employees. In these circumstances the lack of facility in AE to pay additional contributions will be a deal-breaker for many.

Table continues on the following page.

Feature	Existing Defined Contribution (DC) Pension Schemes	Proposed AE scheme (based on March 2022 design principles)	Comment
Once-off Contributions	Allowed	Not allowed	The lack of facility to pay once-off contributions is a serious disadvantage in AE.
Tax Relief/ State Subsidy on Contributions	Relief on employee's contributions at their marginal rate i.e. either 20% or 40% (subject to maximum contribution rules).	A constant state subsidy of 33% of employees' contributions is paid - this is equivalent to getting tax relief at a rate of 25%.	The AE state subsidy is better than the tax relief model for low earners i.e. those paying no tax or 20% tax. Anyone paying the higher rate of tax will be better off in a DC pension scheme.
Taxation of benefits on retirement	25% of the fund can be paid as a lump sum in a tax efficient manner. The balance of the fund can be used to secure a regular income in retirement (annuity) or a variable income Approved Retirement Fund (ARF). In either scenario income tax and USC is payable on this income.	The proposed design is that the taxation of benefits in retirement will be the same as for existing DC schemes.	Benefits on retirement are taxed in the same way in both systems.
Retirement Age	Employer can choose a Normal Retirement Age between 60 and 70. Members can retire early, once they reach age 50. In cases of very serious ill-health, members can early retire before then.	In line with the State Pension Age (SPA), which is currently 66, but could increase to 68. No option to retire early - members' funds are locked in until they are 66 (or older if the SPA changes), except in cases of serious ill health.	Being made to wait until State Pension Age to draw down benefits means there is a very serious lack of flexibility in the AE proposal. This doesn't make any allowance at all for early retirement, blended retirement, phased retirement etc.
Death Benefits	Lump Sum and Dependants' Pensions can be paid on death.	The value of the fund will be payable on death. How the benefits will be available after death will be set out by the CPA. More detail on this will follow, but there is no indication that additional death benefits will form part of AE.	Death benefits are an important benefit for employees. Employers using the AE pension may have to provide death benefits with a different arrangement.
Fund Choice	A wide range of fund options are available, subject only to prudential rules on what is suitable for pension scheme investments.	Limited to 4 types of funds. Fund managers selected by the CPA, i.e. customers have no role in their selection.	AE has a very limited range of funds and gives members no power to change fund manager if they are unhappy with performance.
Charges	Charges are negotiated between schemes and providers and can cover a range of services, including direct engagement with members, employer and trustees, scheme specific fund choices etc.	Capped at 0.5% per annum (but it's not clear what exactly this covers).	In order to compare the relative value for money delivered by the respective charging regimes, we need more detail on what services are being provided in the AE scheme.
Guidance and advice	Typically available with a trained professional 1-1 or on screen.	Appears to be no advice - defaults only.	Guidance and advice will be very important for members of the AE plan - particularly at retirement. It is surprising that these are not covered in the design document.

Overall, the proposed new AE scheme is far less flexible and unattractive from the typical member perspective. For most members, unless more choice is given on contributions, death benefits, retirement age and fund choice, it will not be an attractive proposition, relative to existing DC pensions.

However, employees paying no tax or paying tax at the lower rate of 20% could benefit from the higher level of state subsidy (effective relief at the rate of 25%) relative to existing DC pensions. But, even for these members, other considerations need to be taken into account to determine which would be the best option - in particular the very low initial level of AE contributions (the AE will only pay very modest contribution rates at first) and the level of flexibility.

The vast majority of established DC pensions and master trust plans offer more sophisticated features and, for higher paid taxpayers, better incentives than the new proposed AE scheme. However, as full details materialise, Irish Life will be in touch to discuss the emerging details with you.

Information correct as at April 2022.

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