Auto-Enrolment Uncovered

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The Minister for Social Protection, Minister Heather Humphreys, has received Cabinet approval for the Automatic Enrolment Retirement Savings System and it is expected that the Bill will begin its passage through the Oireachtas immediately. It is understood that Minister Humphreys wants to have the Bill enacted as quickly as possible so that the first contribution can commence on 1 January 2025. As the only country within the OECD without a mandatory or quasi-mandatory retirement savings system, the objective of auto-enrolment is to ensure that every worker will have access to a work placed pension to supplement or compliment the state pension.

AIM OF THE GOVERNMENT

The Government's aim is to substantially increase the number of employees who are currently saving for their retirement, which will result in approximately 800,000 new pension savers. This is most welcome because our rapidly ageing population is going to place an intolerable strain on the state pension.

KEY POINTS TO NOTE ON AUTO-ENROLMENT

- A new National Automatic Enrolment Retirement Savings Authority will be established to oversee and manage the scheme.
- Employees between the ages of 23 and 60 who earn in excess of €20,000 per annum from all employments, and who are not already participating in a qualifying pension scheme, will be automatically enrolled in a pension arrangement.
- The Scheme will use a similar model to the old Special Savings Incentive Accounts (SSIA) with employees making a contribution, matched by their employer and topped up by the State.
- Contributions will start at 1.5% of gross earnings and will increase on a phased basis over a ten-year period to 6%. For every €1 saved by the employee, the employer matches this with a €1 contribution subject to an upper limit on earnings of €80,000. The State will also make a contribution at a rate of €1 for every €3 saved by the employee.
- The scheme will operate a default investment strategy, which will be operated on a 'lifecycle' basis but employees will also have the option to choose from a range of alternative funds with varying risk levels (High, Medium and Low Risk).
- Employers will be permitted to use their own occupational pension plan (or a Personal Retirement Savings Account) to meet the auto-enrolment requirements.
- Existing pension arrangements will not be required to meet certain standards to avail of an auto-enrolment exemption. However, in time, when contributions for the auto-enrolment scheme increase, existing pension arrangements will also have to meet additional minimum standards in order to be a qualifying pension plan for auto-enrolment purposes.
- The definition of employee is anticipated to cover all persons who are directly employed, including variable hours staff, seasonal workers, short-term contract workers and workers on leave of absence.

CAN AN EMPLOYEE OPT OUT OF AUTO-ENROLMENT?

There will be provisions in the legislation to allow workers to opt out or suspend contributions should they wish to after a mandatory participation period of six months. In circumstances where someone does opt-out or suspend their contributions, they will be automatically re-enrolled after two years. Experience from other countries shows that once employees are auto enrolled, very few decide to leave the system.

IMPLICATIONS FOR EMPLOYERS

Auto-enrolment will have significant implications for many employers as it will present compliance and operational challenge as well as give rise to additional business costs. It is vital that all employers understand the extent to which it might impact them and the immediate and longer-term implications for their business and their employees.

WHAT ARE THE KEY INITIAL QUESTIONS THAT EMPLOYERS WILL NEED TO CONSIDER?

Auto-enrolment will affect all employers in some way, and some quite considerably. As part of the planning and budgeting process, employers will need to consider the following questions:

- Which employees will be affected, both at the outset and in the future?
- What are the immediate and longer-term business impacts and, in particular, how much will auto-enrolment cost?
- What options are available to meet auto-enrolment requirements and what key decisions will need to be made?
- Will payroll systems need to be adapted to cater for increased contributions to their pension systems either to cater for increased contributions to their pension scheme or to remit contributions to the Auto-Enrolment Scheme?
- What are the provisions in the employment contracts?
- How could existing benefit arrangements be impacted?

WHAT WILL BE THE IMPACT OF AUTO-ENROLMENT ON EMPLOYERS?

Some of the key potential impacts can be summarised as follows:

Employers with an existing pension arrangement

Those employers who provide existing pension plans to employees may consider amending their plan design so that they can avail of an auto-enrolment exemption. It is our view that where an employer currently provides an occupational pension plan this will likely be, for most employers and many employees, a better total retirement benefits solution for both the employer and employees than the Auto-Enrolment Scheme. However, employers who have smaller workforces, or who employ staff on lower incomes and/or typically for shorter periods, may actually find the auto-enrolment scheme a more suitable option.
It is imperative that each employer considers their pension plan strategy in the context of their own workforce.

Costs

Adhering to the auto-enrolment requirements will lead to additional immediate and long terms costs and these may include:

- Increased pension contributions
- Implementation costs
- Increased administration, consultancy, legal and payroll costs

Administration Processes

Administration processes will need to be reviewed to accommodate the automatic enrolment of eligible employees as there is no waiting period to enrol an employee in the auto-enrolment scheme. If an existing pension arrangement operates a waiting period, then it is likely that some employees will be automatically enrolled into the auto-enrolment scheme. However, they will be able to opt-out after six months and join the existing pension arrangement if they choose to.

Payroll Processes

According to the Department of Social Protection, Employers will "need to make a separate return through payroll directly to the central body administering the scheme". This means employers will have to satisfy themselves that their payroll software is up to date come launch time.

In summary, the introduction of auto-enrolment is a positive development, will narrow the gender pension gap, significantly increase the number savings for retirement and will result in people not being solely reliant on the state pension in retirement.

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