



Irish Life

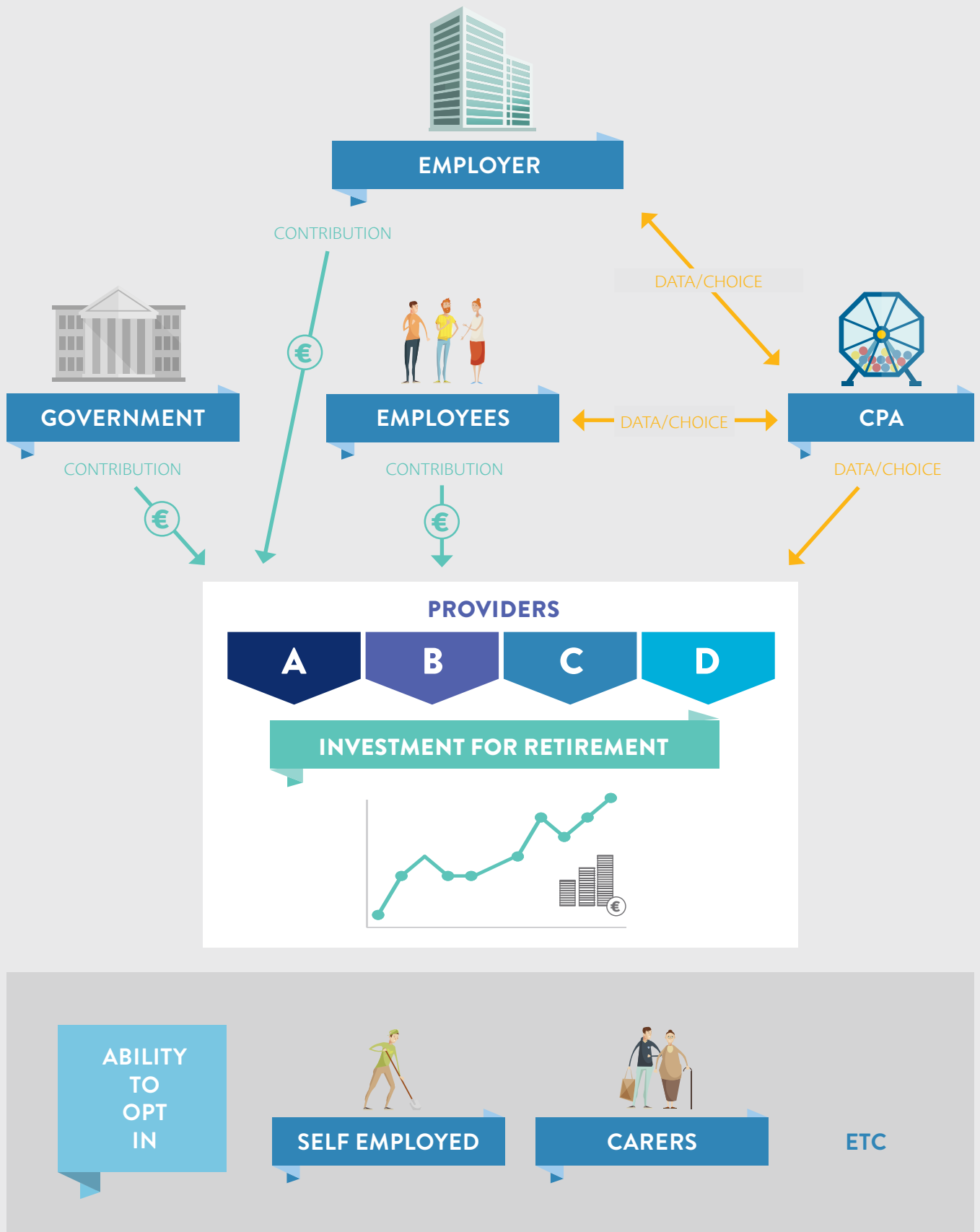
IRISH LIFE VISION FOR AUTO ENROLMENT



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THE AUTO ENROLMENT PROCESS: HELPING EMPLOYEES BUILD BETTER FUTURES



INTRODUCTION

Irish Life welcomes the publication of the Pensions Roadmap and the ambitious vision of pension reform set out by it. Irish Life believes that the implementation of an Auto Enrolment retirement savings system (as set out in the Strawman) is a key and fundamental action in addressing the pensions shortfall within Irish Society. As the population ages, it is incumbent on all stakeholders (the State, employers and individuals) to take responsibility to ensure the best possible outcomes for old age. The extensive and all-encompassing vision within the wide-ranging Pensions Roadmap provides the State with a unique opportunity to create a world class pensions system for the future.

The Pension Roadmap set out an ambitious and necessary review and reform agenda of every aspect of the pension landscape. In the interim period, we have had:

- A consultation by the Department of Employment Affairs and Social Protection on the State Pension (our response is set out as Appendix 1 as an attachment);
- A consultation by the Pensions Authority on governance and regulation of Master Trusts (see our response in Appendix 2);
- A consultation by the Taxation Strategy Group on Supplementary Pensions Reform (set out in Appendix 3).

1ST NOVEMBER 2018



While these submissions have gone to differing Departments and regulators, each is inter-linked and all ultimately point towards the need for Auto Enrolment (AE). Hence, it is imperative that all are viewed together as providing differing pieces of the one giant puzzle. Reform or change in one aspect without another will only create further unnecessary complexity and may have unintended (and negative) consequences for citizens in this country. Irish Life would therefore strongly recommend that a full-view, joined-up pensions reform approach is taken vis-à-vis each consultation rather than approaching each aspect on a piecemeal basis.

Irish Life fully endorses the creation of an Auto Enrolment scheme in Ireland to enhance and supplement current private pensions coverage. The implementation of an Auto Enrolment scheme should be the impetus to drive a cultural change within Ireland for generations to come, enabling better pension provision and retirement outcomes for all. The success of the Auto Enrolment (AE) scheme, however, should not be viewed through the narrow lens of pension coverage alone, but also via the second lens of pension adequacy. The credibility and success of the scheme will ultimately be observed and judged only by the citizens when they reach retirement and are able to enjoy long, fulfilled and financially secure lives.



IRISH LIFE VISION OF AUTO ENROLMENT

The Irish Life company vision is 'Helping people build better futures' and we have approached the response to all our consultations with this belief at its core.

We believe the Auto Enrolment system needs to be simple to use and understand, efficient and have the best consumer outcome at its core. Irish Life believe in the creation of a Central Processing Authority (CPA) that acts as a central information and instruction hub for employee and employers alike. This CPA model should be established quickly using advanced digital technologies and allow for the operation of the provider "carousel". A carousel model that provides options to employers and employees (but does not compel choice) and which allows for scale within the market is also welcomed. Irish Life, however, believes that the extensive provider systems already in place within the market for the collection of pension contributions, member administration and fund investment and member communications should all be re-used rather than these functions being developed afresh with needless costs and risks by the CPA.

Irish Life agrees with the level and timescale for implementation and growth of employee and employer contributions and believes that the levels at which they are set initially are sufficient to allow for proper pensions adequacy on retirement. While Irish Life understands the simplicity of communication of the €1 for €3 bonus proposal, the operation of two taxation systems between AE and private pension schemes would not appear optimal and will cause needless tax arbitrage and confusion within the market. This would go very much against the principle of simplicity in the wider pensions landscape. We strongly believe auto enrolment cannot be viewed in total isolation from the rest of the retirement savings world.

While self-employed workers have been excluded from the remit of Auto Enrolment, Irish Life believes that measures should be taken to strongly encourage their participation within the AE scheme. We believe a further assessment could be made in time to determine if they could be opted-in through the use of their annual tax returns, as some form of Phase 2 of AE.

Finally, Irish Life would urge that all measures be reviewed through a diversity lens, which tests each criterion to ensure it maximises financial inclusion and does not needlessly disadvantage one sector of the population.

We very much look forward to participating in the debate and, more importantly, starting action.



1. IS THE RATIONALE FOR USE OF A CPA SOUND?

Ease of use for members and employers are critical success factors of the proposed Auto Enrolment retirement savings system.

The successful implementation of a Central Processing Authority ("CPA") will be key to making the Auto Enrolment system as user friendly as possible by:

- Providing "Pot Follows Member" functionality which allows members retain their chosen pension provider when they move jobs
- Making it easy for employers to remit contributions to the relevant providers
- Acting as a focal point for promotion of the auto enrolment system.
- Acting as a standards-authority of the Auto Enrolment system

We believe that in order for the CPA to perform these critical tasks well, its brief should not be over-extended into processes like contribution collection/account administration which would require a costly and risky infrastructure build.

Private providers already have well-developed infrastructure for collecting pension contributions from employers and for managing defined contribution pension pots and this technology can be easily and quickly adapted for an Auto Enrolment environment. This would allow member choice but requires payroll sophistication to allow multiple employer pay points, similar to an employer paying salaries into multiple differing banks. If pension providers, employers and payroll systems providers work together, this functionality should be readily available by the implementation date. The SuperStream system in Australia works on this basis.

This will be a cost-effective and lower-risk option for the State rather than building from new a state-funded alternative contribution collection system. Experience in other countries such as the UK, New Zealand and Sweden is that the cost of developing the full range of infrastructure from scratch is huge; for example the NZ hub has cost over €300m.

Irish Life did some initial work on assessing payback periods in respect of any NEST-like CPA development. We looked to the UK NEST experience as a solid reference (an initial loan of £239m). We assumed that there is a certain fixed cost associated with such developments and any scaling of Ireland to UK would not give 1/14th of the cost (as a proxy of population sizes) but the membership base would be 1/14th giving a diseconomy of scale.

Whilst the CPA carries out different tasks to NEST, some of its responsibilities are very similar to the CPA as set out in the Strawman proposal and we assumed a fuller version of the CPA has a cost 33% of the publically available NEST costs. Our modelling of the NEST 75bp charge shows a payback year of 2100, assuming the project starts 2020 (80 years). Even at only 25% of the NEST cost, payback is 2086. This goes to show the very high potential cost associated with ambitious pensions technology projects.

Ease of use for members
and employers will be
a key success factor for
Auto Enrolment.



Private Providers already have well developed infrastructure for collecting and managing defined contribution pension pots and this technology should be re-used and re-cycled.

Our proposal therefore is for a streamlined CPA, which focusses on key areas and lets providers use their own infrastructure to collect and administer contributions.

The CPA should be responsible for:

1. Sourcing, selecting and de-selecting providers of AE products
2. Establishing minimum standards for service delivery and product features
3. Acting as an awareness, information and education provider
4. Operating a digital portal, which provides access to AE services for employers and employees and operates the carousel.
5. Monitoring compliance with the provisions of Auto Enrolment by employers

Pensions Providers should be responsible for:

1. Collecting and investing contributions
2. Account administration both before and after retirement
3. Communication with members
4. Providing their own portal which helps members manage their own pension pots

It is a number of years before AE is planned to be introduced. In that time, to minimise the employer burden of AE, we would see it as very feasible to build technology to allow employers transact with multiple Registered Providers (RPs) seamlessly. The CPA would communicate with payroll software of all employers acting as a control and command centre but not processing cash. In this way, changes of RP by employees could be communicated to the Employer payroll system automatically and payment files sent to the different RPs with no additional work. The UK has an established ORIGO standards system for certain insurance business that could be used. Australia has the SuperStream system. All of the RPs, payroll providers and CPA would need to sign-up to a standardised file format structure to make this a seamless process. Thereafter the CPA would have much lighter administration responsibilities. There will be an onus here on payroll companies to adapt to the new requirements.

2. WHAT ARE THE POTENTIAL STRENGTHS AND WEAKNESSES OF A CPA STRUCTURE?

Do you believe the CPA model can be improved? If so how?

The CPA model proposed in the strawman covers a wide range of activities which we believe over-extends it beyond the critical role as a central facilitation hub. Irish Life propose a more focussed CPA which performs just the activities stated above. This form of CPA can be implemented more quickly and at less cost and risk to the State.

In terms of the rationale for the CPA as set out in the Strawman, a focussed CPA still meets all of the criteria as follows:

A focussed CPA model

	Rationale	Strength or Weakness	Comment
1	Use the scale of a CPA to minimise unit costs	Strength	This is a cost effective and low risk option as providers use their own existing technology to collect contributions and administer pension pots.
2	Simple for Employers and Employees to know who to deal with	Strength	The CPA will serve as a central hub to promote the AE system and to allow employers / employees find their provider and do initial registrations. The hub will automatically link users to providers' portals.
3	Pot follows member facilitated	Strength	Pot follows members will be facilitated in this model i.e. the CPA keeps tracks of which provider members have chosen. When a member moves job their new employer will obtain this piece of data from the hub which will make it very straightforward to send contributions on. New payroll systems for multiple pay points will facilitate this.
4	Allows competition between providers/ uses their specialist knowledge	Strength	The (four?) providers will be subject to minimum standards set by the CPA. They will compete on price, cost, investment performance and service.
5	Reduces marketing and brokerage costs	Strength	For those members who don't have a preference for a particular provider, the CPA will operate a carousel.
6	Allows use of myGovID.ie	Strength	The CPA will use myGovID.ie to validate member identity.

This proposed model does require payroll departments/software providers to manage deductions to up to four different providers. By working with the providers of payroll software to develop solutions, it should be possible to make this an efficient and painless process for employers (for example SuperStream in Australia).

3. IF YOU DON'T AGREE WITH THE CPA MODEL, CAN YOU SUGGEST ALTERNATIVES?

As outlined above we are supporters of a focussed CPA model but believe that a low-risk and low-cost focussed hub is the sensible option. In addition, as existing pensions providers already have systems in place this should allow for a speedy implementation of the auto enrolment system rather than a potentially costly State build to duplicate what already exists within the market.

It is unclear what additional benefit could be provided by a more extensive CPA that would validate the need for significantly higher State costs for its development. NEST in the UK has cost nearly £539million and this is not due to be repaid to the Exchequer until 2036 in an Auto Enrolment market of over 10 million people. For the CPA to engage in something similar would have some of the same fixed costs in NEST but in a market of only 440,000.

4. HAVE YOU SUGGESTIONS FOR HOW THE OPERATING COSTS OF THE CPA COULD BE COVERED?

Irish Life believe that ultimately the set up and development costs should be funded from the government as a strategic investment spend given the very long-term nature of the payback. If the aim is to keep fund charges as low as possible for members while being commercially viable for providers, it doesn't make sense to fund setup/development costs from members or providers.

The option of a Public Private Partnership (PPP) approach to the development of the CPA could be assessed. While we are not aware of a PPP outside the physical infrastructure area this could be a valid option and may have Balance Sheet advantages for the State.

The on-going costs of the light version CPA should be small in comparison to the potential cost to the State of the proposed financial incentive for individuals and we suggest is added to that budget as a cost of much improved longer-term retirement funding which pays back to the State in other ways. In any case, the funding model of the CPA should be ring-fenced, clear and transparent and members and RPs should not be exposed to any cost overruns.

5. IF SO, IS THE MAXIMUM FIGURE PROPOSED OF FOUR PROVIDERS ABOUT RIGHT? OR SHOULD IT BE MORE OR LESS, AND IF SO WHY?

The model of re-using the existing private sector infrastructure follows international best practice used in UK, New Zealand and Australia. This is the quickest and least risky way for the government to tackle the growing shortfall in retirement savings.

Contracting four providers creates competitive tension and prevents over-reliance on a single provider. The providers should have vast experience from the existing defined contribution (DC) market and have developed sophisticated contribution collection and communication technologies. It makes sense to seek to re-use this technological infrastructure and experience within Auto Enrolment.



The model of re-using existing private sector infrastructure follows international best practice.

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?

The size of the Irish market is relatively small and based on experience in the UK, it is not unreasonable to assume that pensions pots will be relatively small and hence the need for economies of scale in order to reduce costs. The suggested number of Registered Providers (RPs) at 4 would seem as potentially the right number.

Any larger number could lead to an unattractively small number of policies given the carousel is likely to mean a very near even split over providers. If this approach is used, we feel it is important that there are firm indications of the numbers into the future for potential providers to consider in assessing tender responses (any plan to extend much beyond 4 in the future would be a negative, reducing the scale).

7. IF SO, IS THE MAXIMUM FIGURE PROPOSED OF FOUR PROVIDERS ABOUT RIGHT? OR SHOULD IT BE MORE OR LESS, AND IF SO WHY?

As stated above we believe that four is an appropriate number. It balances the need for competition with the desire to drive down unit costs. In the event of mergers between providers we suggest that the CPA would source a replacement provider through a fresh tender process.

A balance needs to be struck between the need to ensure supply provision and the desire to drive down costs.

8. ARE THERE ALTERNATIVES THAT CAN ACHIEVE THE ECONOMIES OF SCALE REQUIRED OTHER THAN TO SELECT A LIMITED NUMBER OF PROVIDERS BY OPEN TENDER?

An alternative (assuming the CPA is a given) is simply to set a given threshold standard of service, capital, etc and allow a market approach to determine the numbers involved. However, this could lead to fragmentation and a possible question over sustainability if there were numerous providers but with very low volumes of participation.

9. WHAT DO YOU BELIEVE IS THE OPTIMUM GOVERNANCE STRUCTURE FOR REGISTERED PROVIDERS AND WHY?

(e.g. Master Trust or insurance based contract providers).

Irish Life believe there should be a single form of governance within the Auto Enrolment world to ensure consistency of communication for all members. Allowing a variety of types of products forms would lead to confusion and unnecessary complexity amongst members and make it difficult to sell the system as an easy to use.

We believe that one of the existing governance models in pensions - trust based or contract based- should be reused. Compatibility with the existing system is important as many members will have both AE pots and traditional pension pots. Simplification and harmonisation of options needs to be a key consideration and Irish Life has strongly advocated for this in its submission to the Taxation Strategy Group set out in Appendix 3.

Irish Life have proposed in our Interdepartmental Pensions Reform and Taxation Group Consultation on Supplementary Pensions Reform submission a number of improvements to the PRSA product that would make it a suitable candidate for the AE system. PRSAs are currently over-regulated, inflexible and cumbersome, but with reform, the PRSA contract based governance system can be made fit for purpose. An amended PRSA type structure could be a valid option if these changes are implemented with each member having an individual contract with a provider.

An amended PRSA structure could be a valid option - *if* changes are implemented.



There are no Master Trust regulations yet published. We are concerned about aspects of the Master Trust Consultation Paper recently issued by the Pensions Authority and we would not see Master Trusts as a practical governance model if the proposals made in the consultation paper are implemented. If the Master Trust regulations are adapted to a more workable framework this could potentially be a good governance structure.

Until the report on both consultations set out above is published detailing any proposed changes it is difficult to make a firm assessment on the optimal legal form. As stated above there is a need to assess all aspects of pension reform that are currently subject to consultation in unison due to the key inter-dependences between each model.

In terms of providers, again we believe there has to be consistency of regulation and solvency regime. We believe all providers should be regulated to ensure the maximum consumer protection as set out within the Solvency II standards with the comfort that provides policyholders. Regulators can also be comfortable there is consistency of policyholder regulation within a rigorous system.

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?**

In light of the low level of investment knowledge in the public, we are supportive of a default fund allocation approach where no active selection has taken place. Irish Life's experience within the defined contribution market is that up to 90% of people end up in the default option and as such establishing a good default option is key.



We are supportive of the implementation of a default fund strategy.

11. WHAT IS AN APPROPRIATE MAXIMUM LIMIT ON THE LEVEL OF ADMINISTRATION/INVESTMENT MANAGEMENT FEES?

As we stated above, the set up and development costs of the CPA should be funded from the government as a strategic investment spend, given the very long-term nature of the payback. The on-going costs of the CPA should be small in comparison to the cost to the State of the proposed financial incentive and we suggest should be added to that budget as a cost of closing the savings gap (which pays back to the State, in other ways, longer-term).

We believe it is important that the chosen providers deliver a high a level of service in a cost-efficient manner. To do this, they will need to invest in infrastructure to connect to the CPA and to efficiently collect contributions and administer pension pots for over 400,000 members working for 200,000 employers. The UK which has a population 14 times greater than the Irish population has set maximum charges on default funds at 0.75% (of the fund per annum). Competition in the UK has pushed charges a bit below this level but given this huge difference in scale between us and the UK it is impossible to see how Irish providers can deliver an equivalent service under a charging regime which is capped at 0.5%.

We note a UK AE review in 2017 concluded that 0.75% remained the appropriate rate despite the large scale in the UK system

Allowing for some diseconomies of scale relative to the UK we would suggest 75-100bps as a plausible range for maximum fees.

We suggest this limit only applies to the three core funds and RPs are allowed provide more sophisticated funds with higher charges to reflect the different fund types. These higher charges should be clearly identified and easy to understand by members in addition to a detailed assessment of the risks involved within these funds. The default should be in the 75-100bp range.

12. WHAT IS THE APPROPRIATE TIMEFRAME BETWEEN EACH TENDER ROUND (E.G. 5, 7, 10 YEARS) AND WHY?

Providers face a high initial development cost to scale existing systems and set up expenses that are only recouped over time. It takes a long time before the funds build up for the assumed low charges to contribute enough revenue to compensate for this. We feel 5 years is too short with funds only starting to build up at this point.

Irish Life would suggest:

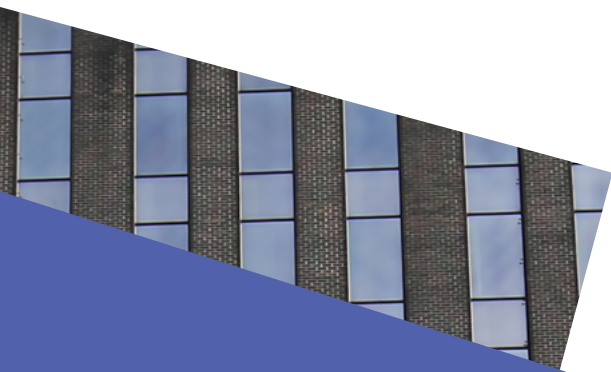
1. The initial tender period should be for 10 years - any tender loss at that time would be only in respect of future members on the carousel (not existing business to date). We believe some members will be with that RP for reasons other than simply default (say, a particular fund choice) and it would be wrong to move them without consent. Members can of course move at their own discretion.
2. But any provider that falls short of service levels standards, rating and/or solvency levels etc could be sanctioned prior to, or at, any initial tender period and could lose all funds (new and existing) subject to some fair and transparent regulatory process if they were in breach of minimum thresholds (or be removed from the carousel).

If RPs are doing a good job and meet all standards, it is open to the CPA to increase the number of RPs from (say) 4 to 5 at the 10 year review point.

13. DO YOU THINK THE PROPOSED TIMEFRAME FOR THE ROLL-OUT OF AE IS REASONABLE AND ACHIEVABLE?

The timelines are aggressive but achievable with the right approach of maximising the re-use of the technology and systems of commercial providers. We believe the providers would be capable of meeting the deadline but the greatest risk lies with the CPA, as it's a new and complex entity in its current proposed form.

Issues around private pensions coverage need to be tackled to ensure a better outcome for retirees and to reduce reliance on the State. Real momentum needs to be maintained to ensure that timelines are met for the greater good of society as a whole.



Real momentum needs to be maintained to ensure that timelines are met for the greater good of society as a whole.

14. DO YOU BELIEVE THAT EMPLOYEES SHOULD SELECT THEIR PREFERRED PROVIDERS OR SHOULD EMPLOYERS BE REQUIRED TO SELECT A REGISTERED PROVIDER ON THEIR BEHALF?

The proposed employee choice model removes the responsibility from employers to make a decision about their pension provider.

In many cases this is an unwanted responsibility as the employer may not have any interest in performing this role.

However, there are some employers who would prefer to make an active choice and be involved in this process. These employers should be allowed to recommend a Preferred Registered Provider to their employees - but there would be no compulsion on the employee to accept that Provider. If employers do not choose a Preferred Provider, they are defaulted one and that acts as the default for all their employees (again, with employees not required to accept the default). If they have only a few employees, there is a high possibility that all of their employees will be happy using the employers default provider and complexity is reduced. This will make contribution collection easier for all parties.

15. SHOULD THERE BE A LOWER/UPPER EARNINGS THRESHOLD TRIGGERING AUTOMATIC ENROLMENT?

Irish Life believe it makes sense to have a lower earnings threshold as employees on low salaries:

- Benefit from a high replacement rate from the current State pension
- May not be able to afford pension contributions
- We do not believe very short-term casual workers should be caught on the AE net eg: summer students (but continuous rollovers of short term contracts for avoidance of AE should have penalties attaching to employers).

However, we need to be aware that women could be disproportionately excluded here and hence it will be critical to ensure that women who work multiple employments which in aggregate reach the minimum threshold be opted-in by all their employers into the Auto Enrolment scheme. This could be monitored via Revenue who would have details of all employments and notify employers of the need to opt an employee into the system.

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?

Irish Life recently carried out research in this area. We believe our Retirement Readiness Report ([link here: www.irishlifeemployersolutions.ie/sites/default/files/IL_Retirement_Readiness_Report.pdf](http://www.irishlifeemployersolutions.ie/sites/default/files/IL_Retirement_Readiness_Report.pdf)) illustrates many of these points.

Table 1 in the strawman clearly sets out the net income replacement rate provided by the current state pension.

It shows that those earning €17000 p.a. will suffer a drop of net income of 14% if relying solely on the state pension in retirement. Those earning €19000 will suffer a drop of net income of 18%.

These are significant drops in net income.

People at these salary levels are likely to be disproportionately female and/or part-time and/or belong to ethnic minorities. We feel therefore that in the interests of making the new auto enrolment system as broadly based as possible there is a case for setting the lower earnings threshold somewhere between €15000 and €20000 – perhaps €17600 which is roughly the level at which someone will see a 15% reduction in net income if relying solely on the state pension. €17600 is also sufficiently above the point (currently €16500) at which a single PAYE worker will typically come into the tax net, such that tax relief would apply on an employee contribution of 6% should the current marginal rate relief method be used.

As women tend to have more multiple employments, it is important that their cumulative earnings are viewed together.

Linked to the above is also the necessity to ensure that the earnings threshold is closely monitored so that it captures persons who may hold a number of differing employments. In particular, as women tend to have more differing employments than men it is important to ensure that their cumulative earnings are viewed together when assessing the maximum threshold i.e. €10,000 from one employment, €15,000 from second employment to make sure that they can be opted into an Auto Enrolment scheme. As employers will not have visibility of all employees' earnings the onus may rest with Revenue and CPA working in partnership to notify employers when they should opt-in certain employees.

17. DO YOU AGREE WITH THE PROPOSAL TO REVIEW THE EARNINGS THRESHOLD ON A FIVE YEARLY BASIS?

Irish Life believe that the earnings threshold should be reviewed annually – the same as nearly every other parameter affecting the taxation and social welfare system, for example, the state pension, income tax bands, minimum wages etc.

If the threshold is reviewed once every five years there could be a large jump in the threshold at those reviews due to the cumulative effect of inflation. This could mean a significant amount of employees would no longer be required to be auto enrolled. A large level of members opting out after being members for a few years due to this sudden jump would not be desirable and would undermine the consistency which is needed to establish public confidence in the system.

18. SHOULD THERE BE A LOWER/UPPER AGE THRESHOLD FOR AUTOMATIC ENROLMENT?

Irish Life would suggest a lower age limit of 18 as the ethos of saving for retirement needs to be part of every adults working life experience. Otherwise, upon reaching a certain age (say 23) the young people will see a drop in their earnings and most likely seek to opt-out of the system.

We believe that older members should be entitled to benefit from pension contributions regardless of age and therefore we do not support an upper age threshold which would be discriminatory against older people. Even smaller pots are better than no pots at all.

19. IF SO, ARE THE PROPOSED AGE THRESHOLDS APPROPRIATE?

As stated above, Irish Life support a lower age threshold of 18. The paper outlines a reasonable logic for the age 23 i.e. the rate of separation/churn falls after the age of 22 and therefore the administrative burden of enrolling employees of this age in the new retirement savings system begins to fall. However, we feel this is not good enough a reason not to include all from 18. We don't support an upper age threshold as outlined above.

20. SHOULD EMPLOYEES OUTSIDE OF THE AGE/ EARNINGS CRITERIA TRIGGERING AUTOMATIC ENROLMENT BE ABLE TO OPT-IN?

It is absolutely essential that employees outside of the age/earnings criteria be allowed to opt-in. The purpose of the criteria are to set broad ranges where it is likely that membership of the pension scheme is desirable. Given the diverse nature of careers and life paths the criteria will only be broadly applicable and will not guarantee a 100% match between those who should be saving for a pension and those automatically included. Therefore, employees themselves should have the final say on whether they should be saving for a pension and therefore if they are outside the usual criteria then they should be allowed become members. This will include employees earning less than the lower earnings threshold.

There will be a need for anti-avoidance measures to be put in place i.e. that employers cannot take actions against employees who choose to opt into the scheme just because their labour costs are increasing.

21. HOW SHOULD THOSE WITH MORE THAN ONE SOURCE OF EMPLOYMENT BE TREATED?

If someone has more than one job then subject to the qualifying criteria they should have one pension in the system covering all of the employments. Applying the earnings criteria to the combined income will be administratively challenging for the Central Processing Authority. However, we suggest by working with the Revenue that this could and should be done. The current introduction of PAYE modernisation gives real time reporting between Revenue and employers, and means Revenue will have an up-to-date view of an individual's earnings. Revenue could then contact each individual employer, perhaps as part of the real time PAYE reporting regime, to alert them that the employee should be opted-in to the scheme. The CPA would have a role here to ensure that all contributions were attributed to one pot.

22. DO YOU AGREE WITH THE APPROACH PROPOSED FOR SELF-EMPLOYED PEOPLE?

If not, what modifications would you propose?

Pension coverage for the self-employed at 30% is far too low and we note that the proposed system will only cater for this group on an opt-in basis. However, we recognise that given the diverse range and nature of self-employment automatic enrolment will not always be a practical or suitable approach. Therefore, we support the proposal to allow opt-in and recommend that this be accompanied by targeted campaigns at professions such as tradespeople, contractors etc. to encourage enrolment on a voluntary basis.



We recognise that given the diverse range and nature of self employment Auto Enrolment may not always be practical.

There should be strict monitoring to ensure that contractors are actually contractors/ self-employed and that this does not exacerbate unscrupulous employers classifying employees as contractors/self-employed. The policy should also be reviewed within a few years to monitor success and if necessary consideration should be given to putting in place a mechanism to opt-in those who are self-employed.

23. SHOULD PEOPLE OUTSIDE OF THE WORKFORCE (CARERS, HOMEMAKERS) BE ELIGIBLE TO OPT-IN?

If so, suggest how that might work in terms of contributions etc.

One of the strengths of the strawman proposal is that it is a pension scheme for all. Allowing people who are not part of the paid workforce participate would further strengthen its image as a truly democratic pension scheme. In practical terms carers and homeworkers may have periods of employment during which times they are enrolled in the auto enrolment retirement savings system. They may well want to continue to make retirement savings during their time out of the workforce. This should be facilitated and contributions should get the same incentives from the State as employees contributions receive, up to a reasonable limit.

The State already extends a number of benefits to non-income earners.

- Under the Homemaker's Scheme any years that you spent as a homemaker (since 6 April 1994) are ignored or disregarded when working out your yearly average contributions for a State Pension (Contributory). This makes it easier for a homemaker to qualify for the State Pension (Contributory).
- In the case of Tax Relief at Source (TRS) on qualifying mortgages in the Irish tax system, there is no current requirement on the individual to be in receipt of taxable income in order to continue to receive the benefit under the scheme.

In the UK Auto Enrolment system, non-earners can contribute up to £2,880 and receive a top up of 20% even though they are not paying income tax in the current tax year. Ireland should adopt a similar approach. As the pension gender gap in Ireland is currently 32%, a mechanism similar to the UK would help to address this problem.

24. SHOULD ALL ELIGIBLE MEMBERS BE ENROLLED IMMEDIATELY ON COMMENCING EMPLOYMENT?

Enrolment in the Auto Enrolment system should be automatic for all eligible members on commencing employment. We don't believe there is any benefit in delaying enrolment for a period as any delay would create the possibility for administration errors, omission etc. It would also mean that an employee from their first payslip would see the pension contribution being deducted and would not subsequently experience a fall in net income.

Enrolment should be automatic for all eligible employees on commencing employment.

25. SHOULD MEMBERS OF EXISTING PENSION SCHEMES BE ALLOWED TO TRANSFER INTO THE AE SYSTEM?

The interaction of the existing pension system and the Auto Enrolment system is a critical issue. Both systems will co-exist for the foreseeable future which means that there will be many employers participating in both a traditional scheme and the new Auto Enrolment system. Many members on changing employment will find themselves moving from a traditional scheme to the new Auto Enrolment system and vice versa. Some members may have two concurrent employments; one of which is pensioned in a traditional scheme and one of which is part of the new system. Unless transfers between the systems is allowed members will not be able to consolidate their pension benefits in one place for ease of options on retirement. The objective of a 'pot follows member' system will not be achieved.

Furthermore, to allow transfers take place without the need for expensive advice, it is important that the two systems rules around taxation and benefits post retirement are aligned. If the systems are not aligned the retirement planning landscape will be much more complex and the simple idea behind pensions (save now to spend later) will be muddled with detail on which type of pension is better in different scenarios.

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?

Irish Life would agree with this approach as it follows international models and allows both employees and employers adapt gradually to the new pensions regime. The affordability of pensions and the deduction from payslips should be eased over time and be well flagged in advance so as not to cause any sudden, unintended financial burdens on employees. Similarly, for employers it is important that they have time to properly budget and make provision for any increases in labour costs. While pensions adequacy needs to be borne in mind, employees also need to have confidence that they can maintain their standards of living while contributing to their retirement. Six years is an appropriate time frame for this transition to occur.

27. DO YOU AGREE WITH THE PROPOSED CONTRIBUTION LEVELS?

If not, what contributions levels would you propose and why?

The question of pensions adequacy must be taken into account when reviewing the level of pension contributions. A 6% employee and employer contribution under the current taxation regime within occupational pension schemes would appear sufficient to ensure proper pension adequacy on retirement. However, if there are any changes to this, then contribution levels may need to be re-assessed. Irish Life would refer to its previous submission to the Taxation Strategy Group at Appendix 3 vis-à-vis the support provided by the current taxation system towards pension adequacy.

According to the Strawman "when purchasing a pension in the private market, an individual aged 23 who is on the current average wage of c. €37,775, intending to retire at 68, and with a target replacement rate of say 60% (or c. €22,600 per annum), would need total contributions of approximately 13% of their annual salary for pension purposes". This is in line with the ultimate contribution rate of 14% proposed in this Strawman.

Nevertheless, there are a number of issues with this worth considering:

- Few individuals reach the average national wage by age 23. Most workers enjoy wage increases throughout their career while the absolute value of contributions in the early stage of their career may be quite low. Under existing pension rules, individuals are permitted to increase their pension contribution up to a maximum of 40% at age 60 while still enjoying tax relief. In practice higher contribution rates may be needed in Ireland to achieve adequate pension replacement rates.
- A single sixty year-old employee earning €37,775 enjoys 40% tax relief on their pension contributions. The AE system would reduce this to just 25%. For individuals paying the top rate of tax the proposed structure is a significant dis-improvement on the current system of marginal tax relief and makes the net cost of funding higher.

Without an understanding of the taxation to be applied on retirement it is difficult to project what the likely outcomes for pensioners will be under the proposed Strawman, as such Irish Life would recommend that similar tax treatment is applied to Auto Enrolment savers as is applied within occupational pension schemes.

The question of pensions adequacy must be taken into account when reviewing the level of pension contributions.



28. **SHOULD THERE BE AN UPPER THRESHOLD ON QUALIFYING EARNINGS ALONG THE LINES DESCRIBED IN THE STRAWMAN OR SHOULD QUALIFYING EARNINGS BE UNCAPPED?**

Irish Life within its submission to the Taxation Strategy Group called for a harmonisation and simplification of pensions rules for all regardless of the pensions vehicle, employment status or occupational scheme used. Irish Life believes to avoid complexity the same should also apply for Auto Enrolment. There are clear existing rules regarding the annual amount an individual can contribute to their pension pot and the overall size of pension pot they can accumulate. A salary cap of €115,000 applies along with age – related contribution limits. This cap has been reduced significantly over the years as has the standard fund threshold.

There does not appear to be any logical rationale to apply a differing cap within Auto Enrolment to that within occupational pensions. Therefore the cap on qualifying earnings should be €115,000 rather than €75,000 in order to ensure equality of treatment of members across the different systems.

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?

Irish Life believes this would unnecessarily complicate the current simple proposal. In addition, it appears likely that the UK will remove this exemption over the coming years as a review group is proposing 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?**

If the ultimate goal of Auto Enrolment is to create better retirement provision for all then an employer should be required to match contributions up to 6% for ALL employees and similarly the State should do the same for any tax relief/credits. There would appear to be no logical reason to exclude persons who wish to opt-in and it may lead to perverse recruitment and retention incentives of staff.

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?**

Irish Life can understand the attractiveness in the simplicity of the proposal for the target audience; however, this is countered by the extensive complications that may be caused with the operation of two differing taxation regimes that will be created. In particular, the complexity that will arise in areas including communication, advice and operations with two conflicting systems will be huge, as everything from transfer of pots to arbitrage based on income shall occur. Marginal rate tax payers would need advice as regards best options for them as Auto Enrolment would offer poor value and they would look to defined contribution scheme instead; those who pay standard rate taxes in existing defined contribution plans would be approaching employers looking for Auto Enrolment plans to improve their outcomes.

Irish Life thinks there is huge scope to re-examine how the benefits of tax relief are communicated and explained to members and agree this should be simplified within the Auto Enrolment model but this should not be achieved by the creation of two conflicting regimes.

Ireland has a very progressive income tax system where low paid workers benefit from low levels of income tax. Despite popular belief to the contrary, the pension system actually adds to the progressive nature of the income tax system. The pension system delivers most benefit to lower income and middle income workers.

The two main reasons why the current pension system improves the progressiveness of the income tax system are:

- The cost of the State Pension is higher than the income tax and social insurance paid by a very significant portion of the workforce and therefore the cost is effectively subsidised by the higher paid.
- The tax relief for pension contributions, as a percentage of tax paid for lower and middle income workers is the same as, if not higher than, that for higher income workers.

The tables below show a simple illustration of the impact of pension tax relief on the net amount of tax paid at various income levels. All figures are based on the tax rates that apply from 1st January 2018 and are based on a full 12 month basis. Rates applicable to a single PAYE employee are used. The first table shows the approximate total tax take (including PAYE, USC and PRSI) for PAYE workers on various levels of salary:

Salary	25,000	50,000	100,000	150,000
Income Tax	1,700	9,790	29,790	49,790
PRSI	1,000	2,000	4,000	6,000
USC	474	1,662	5,010	9,010
Total Deductions	3,174	13,452	38,800	64,800
Tax as % salary	13%	27%	39%	43%

As the table shows, the current system is strongly progressive, with the effective overall tax rate increasing substantially as income increases. The effective tax rate for an individual earning €150,000 is over three times the rate paid by someone earning €25,000.

The next table shows the impact of making pension contributions at a rate of 10% of salary on the effective tax take at each income level:

Salary	25,000	50,000	100,000	150,000
Total Deductions	3,174	13,452	38,800	64,800
Tax as % salary	13%	27%	39%	43%

Employee Pen Cont %	10%	10%	10%	10%
Contribution Amount	2,500	5,000	10,000	15,000

Total Relief	-500	-2,000	-4,000	-6,000
Net tax	2,674	11,452	34,800	58,800
Tax as % salary	11%	23%	35%	39%

As the table shows, the progressive nature of the tax system remains strongly evident here – in fact the impact is to make the system slightly more progressive, with the effective rate paid at the €150,000 level now increased to 3.5 times the rate at €25,000. The factor increases to 3.5 times because the tax relief, as a percentage of the tax paid, actually reduces as income increases.

Therefore, while the cash impact on the total tax paid by higher earners is clearly higher than for lower earners, the taxation burden remains very substantially weighted to higher earners. Overall, we believe the current system of deferred tax for pensions is fair and equitable in that it adds to the progressive nature of the income tax system.

While there is a strong case to increase the incentive to save at lower levels of income by offering a higher rate of top up of 25%, we believe that the progressive nature of the tax system is best maintained on an overall basis by maintaining marginal rate tax relief.

Pension adequacy must also be a key factor when looking at the State contribution. For a person who is 35 years old starting a pension scheme and on the average earnings of €45,611, they will need to have total contributions to their pension of 16.3% to achieve a total replacement income of 50% - so pensions adequacy is already a problem without any changes to tax relief. With the current high cost in the housing market, younger persons are already struggling and pensions are not a priority. Irish Life pensions data shows that the current age of starting a company pension plan is 37 with an average contribution rate of 11.4%, as such even with marginal tax relief these persons are unlikely to have an adequate income in retirement.

However the question of taxation cannot be viewed in isolation, tax paid on distribution must also be taken into account and the Auto Enrolment Strawman is silent on how this will operate at differing income levels. While the Auto Enrolment model appears to provide better outcomes for standard rate tax payers if they must then pay tax at a higher rate on exit these benefits may be negated. This must all then be assessed through the lens of pensions adequacy and the implications that this may have for a person in retirement. A balance needs to be struck therefore between simplicity and adequacy for all income earners.

32. WHAT LEVEL OF TOP-UP OR STATE INCENTIVE WOULD YOU PROPOSE?

As stated above Irish Life would propose that the State incentive should align with current incentives for occupational pension schemes to avoid taxation arbitrage and additional complexity for members, employers and the State.

As stated above, the level of State incentive also needs to be assessed with the need for pension adequacy in mind. The significant taxation paid in retirement also needs to be factored in with relief in reality being a deferral of tax rather than a tax break (Lump Sums aside).

33. IF YOU DON'T AGREE WITH THE 'TOP-UP BONUS' APPROACH WHAT TYPE OF INCENTIVE WOULD YOU PROPOSE?

As stated above Irish Life would recommend the alignment with the current tax relief regime. We would also like to refer to our proposal vis-à-vis the pension gender gap set out in our submission to the Taxation Group which can be found in Appendix 3.

34. IS IT APPROPRIATE TO CAP STATE INCENTIVES? IF SO, WHAT SHOULD BE THE VALUE OF THIS CAP

There should be alignment with the current caps within the market and if these are deemed adequate for occupational pension schemes then they should be similarly applied for Auto Enrolment. Hence, the current standard fund threshold at €2 million should be a common reference point. The State should continue to encourage second tier benefits up to this level.

We estimate the cost of providing a pension equal to the current level of State Pension would be around €8,220 per year for someone beginning to save at age 30. The table below compares the cost of the State Pension to the total tax deductions per individual.

Salary	25,000	50,000	100,000	150,000
Total Deductions	3,174	13,452	38,800	64,800
Tax as % salary	13%	27%	39%	43%

Cost of State Pension	8,220	8,220	8,220	8,220
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Comparison of this cost with the amount of taxation at low to medium income levels shown in the earlier section illustrates the very substantial level of cross-subsidy within the system – higher earners shoulder a very substantial share of the cost of providing for the State Pension.

There should be alignment with the current caps for occupational pension schemes.



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?

The proposed "standard fund" choice options of low, moderate and medium risk should cater adequately for most auto enrolment savers. Based on current defined contribution trends within Irish Life it is expected that approximately 90% of persons will go for the default option. However, Irish Life believes a slightly wider range of fund options (than the core three suggested) should be available to Auto Enrolment savers who do wish to engage more actively in their investment decisions to allow them to fully exploit the benefit of time invested in markets. There should be no arbitrary, fixed limit to the range of funds that providers can offer given this is a dynamic space.

We recommend members should have the option of the following three core fund strategies:

- Cautious Growth
- Moderate Growth
- High Growth

A High Growth investment option would provide Auto Enrolment savers the choice of getting more equity market exposure over the long term. None would offer any guarantees.

These choices should be supplemented by funds which allow Auto Enrolment savers to match their retirement benefits to how they will drawdown their savings at retirement age. A lifestyle strategy should be the default that de-risks Auto Enrolment savers 6 to 10 years from retirement to a Fund or Funds appropriate to the amount they have saved and their profile rather one fund.

There should be no arbitrary, fixed limit to the range of funds that providers can offer.



In addition to the funds listed, Auto Enrolment savers should also have access to the following both through the lifestyle strategy and on a standalone basis.

- **Cash Fund:** In order to allow customers to protect their tax free cash lump sum (currently up to €200,000) as they approach retirement a cash fund should be available to invest in.
- **Annuity objective:** They would invest in bonds to best match annuity rates. This is appropriate for individuals who may plan to use their accumulated savings to purchase an annuity on retirement and wish to protect themselves against changes in annuity rates.
- **ARF Matching fund:** This type of fund aims to provide moderate growth as would typically be used in a post-retirement ARF.

We believe there should be one default strategy (rather than fund) and that should be the central moderate risk designed for the typical saver.

Any maximum charges should apply to all 3 core strategies (and all the funds in them) alone with providers free to offer more elaborate funds with higher charges at their discretion.

36. IF NOT, WHAT RETIREMENT SAVINGS OPTIONS DO YOU CONSIDER SHOULD BE PROVIDED?

We believe core default lifestyle strategies should involve a more aggressive growth option for greater long-term return potential and approaching retirement, funds that will match how benefits will be taken on retirement. The funds should be named in plain English so that Auto Enrolment savers understand from the title the expected risk and return or the retirement benefit they are seeking to target.

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?

It's unclear what "target benefit approach" means in this context. It's sometimes taken to mean a form of soft, promised income DC. We do not see how this could work here.

We could also interpret this as meaning an investment strategy that is designed to deliver a pension equivalent to a certain percentage of final salary. This may actually be difficult to deliver in practice given current historically low annuity rates. It may be more feasible to introduce an option such as this when interest rates have returned to levels closer to their historic norm.

Many investment management firms offer "Target Date Funds" to auto enrolment savers which provide a lifelong managed investment strategy which should remain appropriate to an investor's risk profile even if left accidentally unreviewed.

The "Target Date Funds" approach is something of a one size fits all and a more tailored lifestyle approach based on the funds described in 35. above would achieve a better outcome for Auto Enrolment savers.

38. DO YOU AGREE WITH THE APPROACH TO PROVIDE FOR MAXIMUM ANNUAL MANAGEMENT AND INVESTMENT CHARGES AT 0.5% OF ASSETS UNDER MANAGEMENT?

It is important to provide value for money to customers and deliver a cost efficient system where Auto Enrolment savers can benefit fully from the economies of scale available to Auto Enrolment providers. In determining the maximum annual management charge it is important to determine what services it is intended to cover.

Typically a pension scheme will incur a range of costs related to investment management services:

- Investment manager fees
- Custody and safekeeping charges
- Technology and administration

It would be important to clarify if the 0.5% charge is designed to cover all of the above charges. Given the likely low level of assets involved in the initial period it is important that the maximum charge is set at a level which is commercially viable for Auto Enrolment providers to encourage them to tender for RP positions. In other jurisdictions, such as the UK and Australia with much larger populations, where auto enrolment is in place the maximum charge is higher so it is difficult to understand the rationale as to how it can be delivered for less within Ireland.

By setting a low maximum annual charge Auto Enrolment savers would potentially miss out on a range of investment options such as infrastructure, property, risk management strategies and alternative investments which are available to other Defined Contribution scheme members.

We suggest a 75bps to 100bps range as a plausible maximum charges range.

39. IF NOT, WHAT APPROACH TO MANAGEMENT AND INVESTMENT FEES WOULD YOU PROPOSE?

As noted in question 38 above, in setting the annual maximum charge it is necessary first for the range of services and activities covered by the fee be clearly defined.

The aim should be to set the maximum charge at a level that ensures good value but also high quality services can be delivered for Auto Enrolment clients. It also requires that providers will be able to invest in the market and this means a charging level that is sustainable and economic. If the rate is too low, no providers may respond to the RP initial tender.

The aim should be to set the maximum charge at a level that ensures good value but also high quality services.

40. DO YOU AGREE WITH THE PROPOSAL TO ALLOW MEMBERS SWITCH BETWEEN FUNDS?

Irish Life believes it is essential to allow members to switch between funds. Ultimately, the money belongs to the member and they should have the ability to make decisions as to how it is invested.

Service providers should be in a position to facilitate a fully online service to members to allow switching between funds. This will facilitate a greater sense of ownership over the process for auto enrolment savers.

In addition, members should have the choice to switch providers at any time. This will create competition within the market and encourage providers to control costs, provide better investment outcomes and ensure easy and simple administration.

41. DO YOU AGREE WITH THE CONCEPT OF A MINIMUM COMPULSORY MEMBERSHIP PERIOD AND THAT SIX MONTHS IS AN APPROPRIATE MINIMUM PERIOD?

Irish Life agree with a minimum compulsory membership period. Six months is an adequate period for members to become familiar with the benefit of saving and to adjust to a lower net income.

Six months is also a sufficient time for members to see the actual material monetary benefit they are receiving through employer/State contributions. Consideration should therefore be given to how the RPs display benefits so members see 'free money' and help discourage opt-outs. A member benefit statement should be issued to all at six months so as to see the increase in their pensions pots.

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



Irish Life

We believe that charges should be clear, transparent and allow for ease of comparison.



We would agree that an opt-out window is required.

42. WHAT IS YOUR VIEW ON AN OPT-OUT WINDOW OF TWO MONTHS IN MONTHS SEVEN AND EIGHT OF MEMBERSHIP?

It is important to define what is meant by some of the terms used. We have taken "opt-out" as meaning both a cessation of contributions and a return of the value of contributions made. We have taken "savings suspension" to mean a cessation of contributions but with the value of contributions remaining invested.

We would agree that an opt-out window is required and the opt-out window being a little away from the start date is correct. (Consideration would need to be given to the tax treatment on opt-out if tax relief was originally granted - currently a flat 20% tax applies when a member leaves a scheme prior to the preservation of benefits .)

If there is no phased initial introduction by employer, a window of two months could cause a big media focus on opt-outs at this time and could result in mass opt-outs. The strawman indicates this is the only opt-out option. If that is the case, there should be an option for savings suspension at a later stage to reduce the potential focus on an opt-out deadline as their only chance to get out.

In the UK the staggered rollout of AE meant there were staggered roll out of the opt-out window which avoided a mass focus on opt-out through media or otherwise. If everyone is enrolled in 2022, this will not be possible in Ireland. However, it will be important that there is a consistent and prolonged media campaign at this time highlighting the benefits of adequate pension provision.

The rollout of auto enrolment will mean that the opt-out window will be at a time that members contribute 1%. However once auto enrolment is fully rolled out from 2028, new members will contribute 6%. We could expect that opt out rates in 2022 will be artificially low versus long term persistency of AE as some members struggle to adopt to a 6% cut in their gross pay.

43. DO YOU AGREE THAT PEOPLE WHO OPT-OUT SHOULD BE AUTOMATICALLY RE-ENROLLED AFTER A DEFINED PERIOD (E.G. THREE YEARS)?

Irish Life would agree with the recommendation that people who opt-out should be automatically re-enrolled. Re-enrolment after a defined period e.g. 3 years makes sense. Each re-enrolment should have the same six month minimum compulsory membership.

In addition to every 3 years, Auto Enrolment should happen for every new employment where an occupational pension scheme is not available. The member could have increased salary so could be a good time for them to commit & not 'miss' the extra money.

Per the strawman, at the opt-out window a member gets back their contributions. If this happens the re-enrolment should be fairly clean as there is no historical fund attaching to the member. However should

this change and contributions are left deferred, consideration needs to be given to what happens on re-enrolment i.e. is the member defaulted to the fund/provider they had previously or do they get to choose again? We'd suggest they default to the prior pensions provider and not a carousel basis to consolidate investment together. However, the member would retain the option to choose a new pensions provider themselves and consolidate their funds with the new pensions provider.

If a new employer is doing re-enrolment and customer has previous employments, the CPA should have a history of these previous employments and who the pensions provider is for the member. Of course, all GDPR implications need to be assessed.

We disagree with the suggestion that in the event of an opt-out that the CPA retains the employer contributions as part of their running costs. Employer contributions are meant to go towards the retirement of employees and as such are a necessary part of the Auto Enrolment scheme, however, they should not be used as a mechanism to sustain the CPA. Within defined contribution occupational pension schemes when a member leaves a scheme prior to the preservation of benefits the employee contributions are returned to the employee less tax at 20% and the employer contributions are also returned, they are not used by the pensions provider to fund the costs of administration.

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?

Irish Life agree with such a concept but feel it needs defined rules to ensure adequacy is not impacted taking account of the New Zealand experience where currently 40% of members are on saving suspension. There is a tension here between encouraging long term, disciplined saving but also recognising that the member has a choice. A suspension may be a better, lesser evil if it encourages saving from an earlier age on the premise that they can suspend at a later date if required.

Some items that need to be considered are:

- the minimum/maximum length of a particular suspension – we suggest that suspension is allowed for periods from 6 months up to 3 years (that is, no greater than the longest opt-out period)
- the maximum total number or period of saving suspensions that a member can take – we do not propose any maximum number of saving suspension. However, if contributions have been suspended for more than 2 years and 6 months out of the previous 3 years, then the individual must be re-enrolled for a minimum 6 month period before they can take a further saving suspension
- if there has to be a "significant event" before a savings suspension is permitted – we believe that it would be very difficult to define a set of "significant events", as the impact of particular events may vary from person to person. As such a savings suspension should be allowed without giving a reason

Some consideration needs to be given as to how the administration of a suspension would operate e.g. how does an employer know if an employee is taking a Saving Suspension period so they don't have to contribute? Does the employee contact the pension provider or the CPA to inform them of this? Do they inform the employer? Can this be automated?

We presume that employer and state contributions cease when an employee is on a saving suspension. However, further consideration may be needed for particular circumstances, for example those out on maternity/paternity/parental leave or on sick leave (which might be paid, unpaid, or covered by private income protection) where it may be appropriate that employer and/or state contributions continue (please see our submission to the Taxation Strategy Group at Appendix 3). And if contributions do continue, what earnings figure are these based on, for example based on the previous level of earnings prior to start of leave, or based on the minimum earnings threshold.

Saving suspensions do add complexity and may need to be managed through the CPA/ payroll communication protocols. Each scenario/complexity will have to be built into the CPA model and will be costly in terms of developing and maintaining over a member's lifetime. This is somewhat mitigated by our suggestion that saving suspensions would need only to be monitored over the preceding 3 year period.

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?**

Irish Life do not agree employer contributions should be retained to cover CPA costs and, as previously stated, this is not how it functions within defined contribution occupational pension schemes. Employers (in particular small and medium sized employers) may struggle with employer contributions; if these are then retained when staff turnover, this will not enhance the credibility of the scheme.

In terms of employee's contributions, the strawman states employees get a refund of personal contributions less management fees. Market performance needs to be taken account of here and the CPA or otherwise should not be funding downward market movements i.e. it should be the current value of contributions after investment return and charges that applies. This could be negative.

The UK system puts the responsibility on the employer to return employee contributions to the employee if they are opting out within strict deadline so that the employee is not disadvantaged. This doesn't seem right putting the cashflow problems on to the employer - and should be avoided or at least considered when rules are being defined in detail.

There are additional points that will need to be resolved as Auto Enrolment is developed as to how auto enrolment and current private pensions will work together. E.g.

- How will the CPA know who to auto enrol/allow to opt out? If I say I have a private pension and don't need to be auto enrolled is that sufficient or will the CPA have functionality to know if auto enrolment is needed?

- If I am currently auto enrolled and move employment where I will have an occupational pension scheme with a minimum 14% contribution I should no longer need to be part of the AE process. How does this work? Can I suspend savings without any re-enrolment until next changing jobs, and how is this monitored? Does CPA have visibility to my private pension to ensure minimum 14% contribution etc.? Again the more complex the CPA is, the harder & dearer it is to maintain.
- If I have a private pension with 14% contribution but I take a savings suspension or reduction on my private pension, how does that impact AE – am I automatically enrolled to bring my contributions up to 14%?

46. DO YOU AGREE THAT REGISTERED PROVIDERS SHOULD PROVIDE A STANDARD RANGE OF INVESTMENT/DRAW-DOWN OPTIONS?

We are assuming the focus here is on post-retirement options (as pre-retirement is covered elsewhere).

Irish Life in its submission to the Taxation Strategy Group (at Appendix 3) state that ease of understanding and confidence in the pension system are critical in encouraging people save adequately for their retirement. The reform and simplification of the current system would greatly facilitate any initiatives to expand supplementary pension coverage, including those within an Auto Enrolment scheme.

Irish Life believes that for consumers to have confidence in the pension system there needs to be an ease of understanding and that this can be greatly facilitated by a harmonisation and consistency of pensions products and rules including post-retirement experience. This can best be achieved by a system-wide review, coordinated across regulators, that provides consistency across pension products which we hope will be the final outcome from the Interdepartmental Taxation Group review.

There does not appear to be any logic to why there's a need to differentiate on options to persons within an Auto Enrolment scheme at retirement rather than those readily available to other pensions savers. Simplicity should be key here rather than adding an additional layer of complexity applicable only to persons within an Auto Enrolment scheme.

The current suite of products – annuities, ARFs and Vested PRSAs are sufficient to meet retirement needs. Registered providers should be able to provide all of these as options also to persons within an Auto Enrolment scheme. We do not feel there is a need to create new draw down options or standard ranges of options that may add unnecessary layers of complexity to pension savers.

47. SHOULD MEMBERS BE ALLOWED TO ALLOCATE THEIR ACCUMULATED FUND ACROSS ALL OF THESE POST-RETIREMENT OPTIONS?

Irish Life Group in its submission to the Taxation Strategy Group (at Appendix 3) recommended the removal of the need to have an AMRF prior to accessing an ARF. We believe pensioners should be free to make their own choices on retirement and those saving within the Auto Enrolment scheme should also have access to these options.

We feel that all members, having drawn down their retirement lump sum, should then have the same options with the remainder of their pot – namely an annuity, a draw-down product, some mix of these or a further taxable lump sum.

The key is that members receive appropriate advice at this point. Decisions can be difficult and members do underestimate longevity but that is why good advice both at point of draw down and through the life of the draw down product is crucial. Since the requirements in retirement will differ from person to person (according to health, family circumstances, other assets and liabilities, risk appetite, cognitive ability etc.) the idea of a default retirement solution which does not take these factors into account is not appropriate.

48. **SHOULD MEMBERS BE REQUIRED TO INVEST A MINIMUM PROPORTION OF THEIR ACCUMULATED FUND IN A LIFETIME ANNUITY (PENSION)?**

If so, in what circumstances?

No. Members should be free to do what they want with their fund. More importantly, members should be free to follow the advice they receive.

This proposal completely ignores the fact that annuities may not be at all appropriate for certain individuals (very poor health, large pot sizes, other existing guaranteed income etc.). Forcing members to annuitise any portion of their savings could also act as an encouragement to people to opt out as they may not be happy that they never have full control over their pot.

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?

Irish Life believe that people should have access to the products from an earlier age to reflect the fact that more people are moving to a "phased" retirement rather than working full-time until State Retirement Age and then retiring. Blocking access until State Retirement Age may prevent some people in their early 60's from reducing their workload and cause pension poverty. In our submission to the Taxation Strategy Group (at Appendix 3) report Irish Life recommended 55 as a universal earliest drawdown point.

However, people can also choose to extend beyond normal pension age when taking benefits and this flexibility should be facilitated.

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?

Yes. Access should be given from any age provided their ill-health means they can no longer work.

ADDITIONAL INFORMATION

While the Strawman has provided a high level overview of the proposed Auto Enrolment scheme some key considerations still remain unresolved.

PRIMARILY:

- Taxation of Auto Enrolment pensions in drawdown – will this follow the current rules for pension schemes or will a new model to match the proposed tax relief be implemented? This is a crucial point.
- How will the Auto Enrolment model engage and interact with current private pension provision – will there be a harmonisation of rules?
- How will the CPA be funded and what Department will have remit to monitor the CPA – will it be the DEASP or the Dept. of Finance?
- How or where the CPA will be regulated?
- Investment process for any Government top-up

In addition, there are numerous aspects of the strawman that need detailed consideration such as the following:

OPT OUT: IN RELATION TO AE WORKING ALONGSIDE CURRENT PRIVATE PENSIONS

We need to understand how AE & private pensions will work together. E.g.

- How will the CPA know who to auto enrol/allow to opt out? If I say I have a private pension and don't need to be auto enrolled is that sufficient or will the CPA have functionality to know if AE'ment is needed?
- If I am currently AE'ed and move to an employment where I will have an occupational pension scheme with a minimum 14% contribution I should no longer need to be part of the AE process. How does this work? Can I opt-out & how does CPA monitor that I'm opting out for a valid reason? Does CPA have visibility to my private pension to ensure minimum 14% contribution etc.? Again the more complex the CPA is, the harder and dearer it is to maintain.
- If I have a private pension with 14% contribution but I take a savings suspension or reduction on my private pension, how does that impact AE – am I automatically enrolled to bring my contributions up to 14%?

OPT OUT -IN RELATION TO LIFETIME EVENTS

Consideration should be given to ongoing lifetime events throughout a person's working life. E.g.

- If a person is on unpaid leave through illness/career break/parental leave/other are members allowed to opt-out or do they become paid up members?
- If a member becomes unemployed is this treated different to unpaid leave?
- If on long term sick leave and I'm paid by my employer do contributions continue or can I opt out? What about if I'm not paid by my employer but I have income replacement benefits privately.
- Consideration needs to be given to those AE'ed through the rules but who later do not match the criteria e.g. earning €20k but later moving to part time work? Can I opt out at this point?

CONCLUSION

Irish Life is genuinely excited by the prospect of Auto Enrolment. We are the largest pension provider in the State and have the scale and experience to rise to this new challenge.

We believe there is much right about the Strawman:

- The concept of a central hub as a point of employer and employee registration and information
- A planned set of contribution rates that strives for adequacy rather than simply coverage
- Detailed considerations of the exact scope of inclusion

We believe in the fundamental Behavioural Economics truth of using the power of inertia to nudge people into good habits. We are confident Auto Enrolment is the right policy to ensure much improved retirement savings. However, we are also aware that the devil is in the detail and getting the technical aspects right is crucial to the success of the endeavour.

We also believe that a primary objective should be to do no harm. There is an existing pensions regime, which caters well to hundreds of thousands of people. It is critical any changes made do not have unexpected, negative consequences and undermine the many fine existing pension arrangements already operating.

Therefore, this inflection point is both a threat and an opportunity for the country. We in Irish Life intend to do all within our powers to make it a success.



Notes



Irish Life

Irish Life Assurance plc, trading as Irish Life is regulated by the Central Bank of Ireland
Irish Life Health dac is regulated by the Central Bank of Ireland.