Irish Life

Life \ **Pensions** \ **Investments**

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 in January 2025. Any employee who meets the eligibility criteria and isn't currently a member of a workplace pension scheme will automatically be included in the proposed new AE scheme. The Government has published the Auto Enrolment Retirement Savings Bill 2024 which is expected to pass through the Oireachtas and become law in the next few weeks.

We have used the information contained in the Bill to collate a comparison table to enable those involved in the corporate benefit space to compare the proposed new AE scheme to existing workplace pensions (both DC plans and master trusts) across some key features.

For most employees and employers, there is far more choice and flexibility in relation to **contributions, retirement age** (including early retirement options) and **fund choice** within existing DC pension plans, including master trusts, compared to AE. There is also a better overall incentive under existing DC with the important tax relief superior to the AE bonus approach for any tax-payer.

The **incentive to save** comparison is complicated by the differing methods on offer. However, anyone paying any form of tax (lower or higher rate) will enjoy a better return in the existing DC plan because of the reduced employee cost today and the benefit of the full employer contribution. Only those paying no tax (who will likely not be included due to the earning threshold) would be better under the bonus approach.

The vast majority of established DC pensions and master trust plans offer more sophisticated features and, for all taxpayers, better incentives than the new proposed AE scheme. Please talk to your pension advisor who will bring you through all these features or contact us AEready@irishlife.ie

Feature	Existing Defined Contribution (“DC”) Pension Schemes	Proposed AE scheme (based on existing design principles)	Comment
Once-off Contributions / AVCs	Allowed. Member can make additional voluntary contributions (AVCs)	Not allowed.	The lack of facility to pay once-off contributions is a serious disadvantage in AE and will be a deal-breaker for many.
Retirement Age	Employer can choose a Normal Retirement Age between 60 and 70. Members can early retire once they reach 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.
Impact on take-home pay	Employee cost impact today is reduced due to tax relief so lower hit to take home pay	Employee contributions are fully taken from their after-tax pay as no relief.	The same contribution rate being paid to the AE scheme will cost the employee more in terms of their take-home pay than under DC.
Incentive to Save	The existing, well-established method of relief on employee’s contributions at their marginal rate i.e. either 20% or 40% (subject to maximum contribution rules).	A constant state top-up of 33% of employees’ contributions is paid – a very different form of incentive.	The existing tax relief model is better in terms of overall incentive for anyone paying any tax: those paying no tax are unlikely to be included in either plan.
Criteria for including employees	Complete flexibility on which employees are included.	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 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.	Fully rigid contribution rate structure with contribution rates starting at 3% of earnings in 2024 and rising to 12% in 2034. All earnings (basic pay, shift pay, overtime, bonuses etc.) must be included up to €80,000.	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.
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 (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.
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 type 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.	The CPA is expected to specify the maximum administration and investment management charges that may apply close to the launch date.	In order to compare the relative value for money delivered by the respective charging regimes we need more detail on what the exact charging levels will be and what services are being provided.
Guidance and advice	Typically, available with 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.
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 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.

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