PENSIONS
INVESTMENT
LIFE INSURANCE

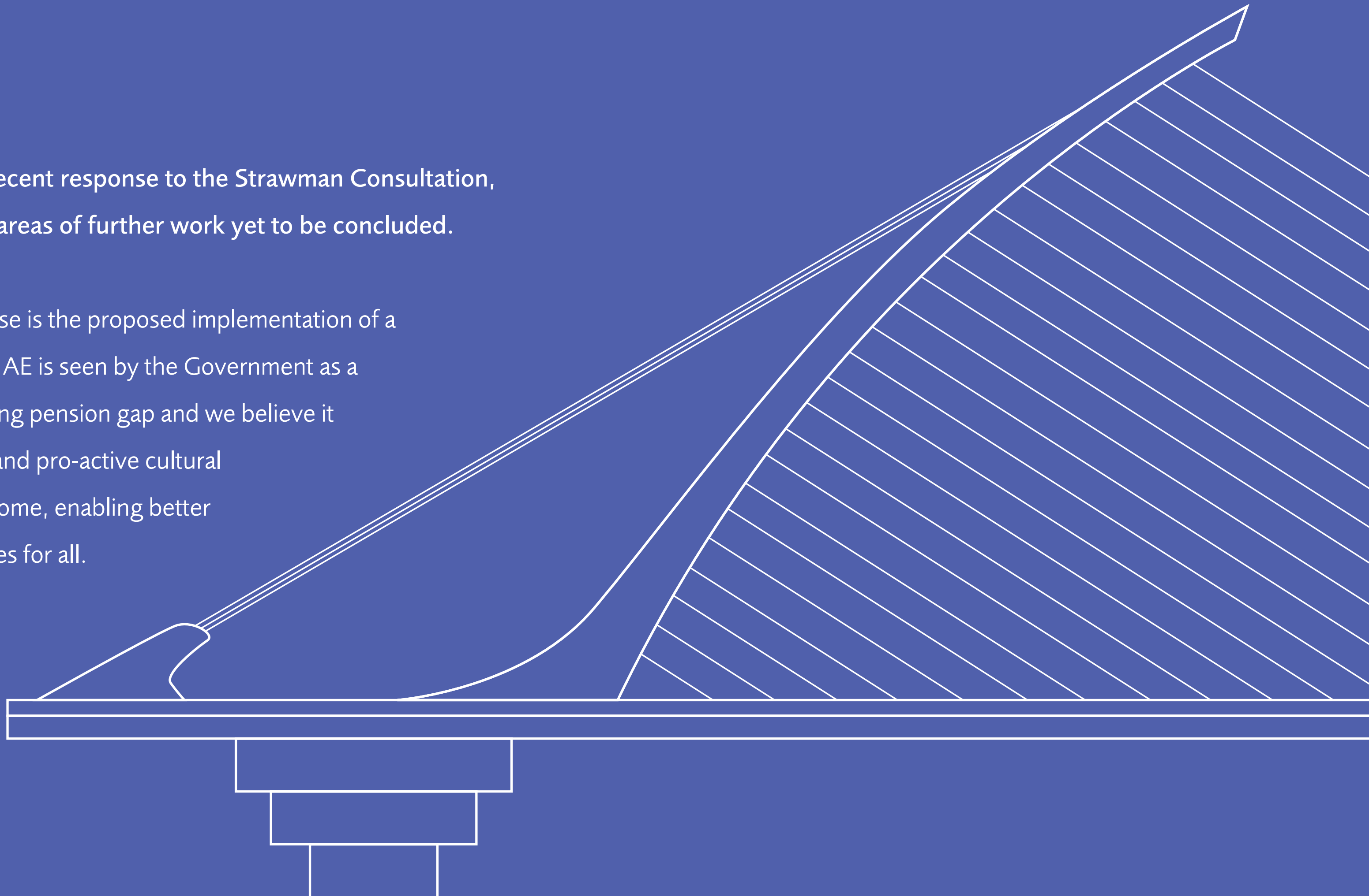
Irish Life

A CLOSER LOOK AT AUTO ENROLMENT AND THE KIWISAVER SCHEME

Introduction

Irish Life welcomes the Government's recent response to the Strawman Consultation, setting out the areas of agreement and areas of further work yet to be concluded.

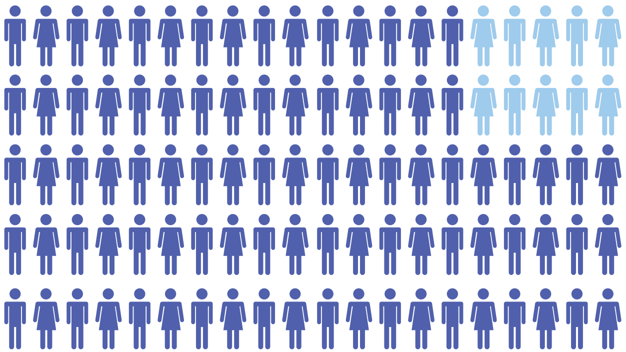
One of the key components of the response is the proposed implementation of a nationwide Auto Enrolment (AE) scheme. AE is seen by the Government as a vital step towards bridging the ever growing pension gap and we believe it should be the impetus to drive a positive and pro-active cultural change within Ireland for generations to come, enabling better pension provision and retirement outcomes for all.



Growing Support

90%* of Irish people support the introduction of Auto Enrolment as at October 2019 and believe it would encourage people to save for their retirement; this has grown from 84%* support in October 2017.

90%



*Source - Coyne Research October 2019 and October 2017

A representative team from Irish Life recently travelled to New Zealand to further examine their KiwiSaver AE scheme. Based upon this research, we have since refined our policy in respect of the best approach to AE to ensure success.

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KIWISAVER - NEW ZEALAND'S PROVEN AUTO ENROLMENT SCHEME

KiwiSaver was implemented in New Zealand in 2007. Its purpose was to encourage a long-term savings habit and asset accumulation by individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement.

We believe Ireland can learn a lot from New Zealand's successful implementation of their AE scheme and have outlined some of our learnings.

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KEY HIGHLIGHTS

Avoid Duplication

The Revenue in New Zealand are central to the operation of their AE. Using their existing interface with employers is very cost effective and avoids unnecessary duplication. Reducing employer burden has been identified as a key success factor by the Irish government in the Strawman.

One Pension Pot

The "Pot-Follows-Member" system works well and means all employees only ever have one pension pot regardless of who they work for. This approach reinforces the need for a Central Hub and would increase the member's sense of ownership of their retirement savings.

Low Base

The KiwiSaver scheme started in 2007 from a very low base of pensions with just 15%*of the workforce enrolled in a work pension savings scheme.

Positive Branding

The government have been successful in the positive branding and marketing of the scheme and Revenue are well respected for the role they play.

*Source - https://www.stuff.co.nz/business/money/

OTHER LESSONS

The choice of default funds need to be carefully considered and suitable for typical members on a long term basis without the need for member decision. It's important they are not set too conservatively at the outset (as many KiwiSaver funds were).

We believe having a fully open market does not always lead to better member outcomes and the decision to keep the number of providers low and simplified fund choices are correct given the low levels of knowledge about pensions.

Despite its success, charges are typically twice what's being proposed here (about 1% plus a contract charge in NZ versus 0.5% proposed for Ireland). This is even in the context of Revenue doing so much of the engagement work.

Funds for younger joiners are often depleted by their early 30's as it allows savers to withdraw funds for house purchase or other significant life events. We believe this is a mistake that should not be repeated in Ireland.

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Numbers

How the KiwiSaver works

TOTAL AMOUNT INVESTED
NZ$57 billion

TOTAL NUMBER OF MEMBERS
2.9 million

AVERAGE MEMBER BALANCE
NZ$20k

AUTO ENROLMENT
with opt-out

3% EMPLOYEE | **3%** EMPLOYER
CONTRIBUTION LEVELS

Source - https://www.kiwisaver.govt.nz/

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The Revenue and Auto Enrolment

One of the key requirements for success in the Strawman Consultation is no burden on employers. In this respect, Revenue are ideally placed to play a bigger role as employers already have a working relationship with them. Leveraging the existing systems and registrations achieves this and is a better option than introducing another entity that employers need to engage with.

Whilst Revenue should provide the direct cash flow and employer and employee enrolment, there is a need for a separate agency to authorise the Registered Providers (RP's). This agency should be separate from the Revenue unit providing AE services, to allow for a degree of separation and governance oversight. The roles involved for the remaining Central Processing Agency (CPA) are:

- Managing the tendering and approval process for RP's
- On-going regulation of the AE administration services testing adherence to tender commitments, adjudication on complaints, collection of statistical data on size of funds etc.

We believe the Pensions Authority, with sufficient resourcing, would be an ideal body to carry out these functions as they currently act in such a role in respect of PRSA Providers in particular and there is considerable overlap here (e.g. the need for a default fund, regulating maximum charges etc.). Keeping all these regulatory bodies under the same organisation ensures greater consistency across the pension's landscape and reduces any likelihood of inconsistency in regulatory approach by product line.

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Irish Life would strongly encourage the Government to look to reuse the existing experts in these areas rather than creating a brand new entity with a very broad remit. This would reduce the risks involved in terms of potential costs and timelines. Revenue and the Pensions Authority both have the existing expertise in this area and could successfully work together. The best governance structure might be for a CPA with an experienced, broad based Board but with Executive Directors from the Pensions Authority and the Revenue. Both organisations would report to this Central Processing Authority Board in respect of their AE responsibilities.

✓ No burden on employers

✓ Revenue ideal as central hub

✓ Pensions Authority as supervisory authority

Government decisions resulting from the Strawman

Irish Life welcomes the progress seen in the recent announcement of results of the Strawman Consultation.
Some to the major issues are more firmed up but there are still many yet to be decided. Our views on these include:

CONTRIBUTION RATES

Certainty on the contribution rates is to be welcomed. However, we are disappointed that the new contribution rates are lower and will result in overall pension funds some 10% lower than was originally envisioned for the average member.

CAPS

We disagree with the decision to cap qualifying salary at €75,000; the existing €115,000 pension earnings limit is a perfectly good reference point to ensure no arbitrage and maintain simplicity.

PARTICIPATION

We are disappointed with the €20,000 entry point; our consultation called for €17,600. We fear this higher limit will reduce female participation from 48% to 43%, per the ESRI numbers*.

OPTIONS

The proposals around immediate opt-in, limited suspensions and availability of time bounded opt-out windows are all sensible and balanced and very welcome.

INVESTMENT

The investment fund details appear sensible but we need to ensure the details are supportive of a good model.

CHARGES

The Central Processing Agency (CPA) will seek to charge no more than 0.50% of funds. The slower contribution build up actually makes this more challenging. Overall total annual charges are now 30% lower in € terms than on the original, higher contribution rates. Unless the Revenue do very significant work which reduces provider costs, this is very challenging. The total initial year one fee is approximately €3 for the average member.

TENDER TERM

The decision to move to a 10 year initial term is welcome.

**Source - https://www.fma.govt.nz/*

The Government needs to be brave in its ambitions and ensure as many working people as possible have access to participate in Auto Enrolment.

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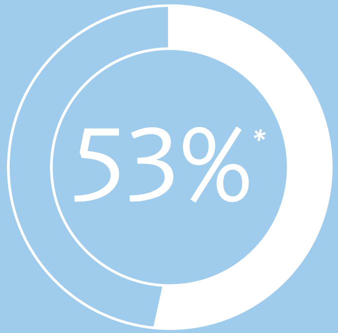
Auto Enrolment elements that are yet to be decided

Amongst the major issues outstanding is the incentive arrangement. We have consistently argued that having different incentive forms by type of pension vehicle is nonsensical. Whilst we recognise the simplicity of the bonus to the average person, the opted-in nature means people do not need to actively understand how the incentive works as it will come through in their payslip. As we argued in our submission, very low earners should receive a tax credit to give them a form of incentive.

The exact form and structure of the CPA has to be decided. We have commented on that above in the context of our New Zealand experience and the critical role Revenue should play.

The post-retirement pay-out rules are still unclear. As in our Strawman response, we believe there needs to be consistency of rules here relative to existing arrangements and any difference (e.g. availability of Annuity or ARF choices) would raise confusion and potential for abuse.

The concept of phasing introduction by employer size was introduced in the latest paper. This was not consulted on in the original Strawman. In principle, we think this is sensible so long as there is a tight and well defined time frame for extension to all employers. There will be extra work required to define employer groups as related entities may or may not meet thresholds depending upon how defined. Phasing also smooths out opt-out periods over different periods which is a good approach.



53%* of people are not saving enough

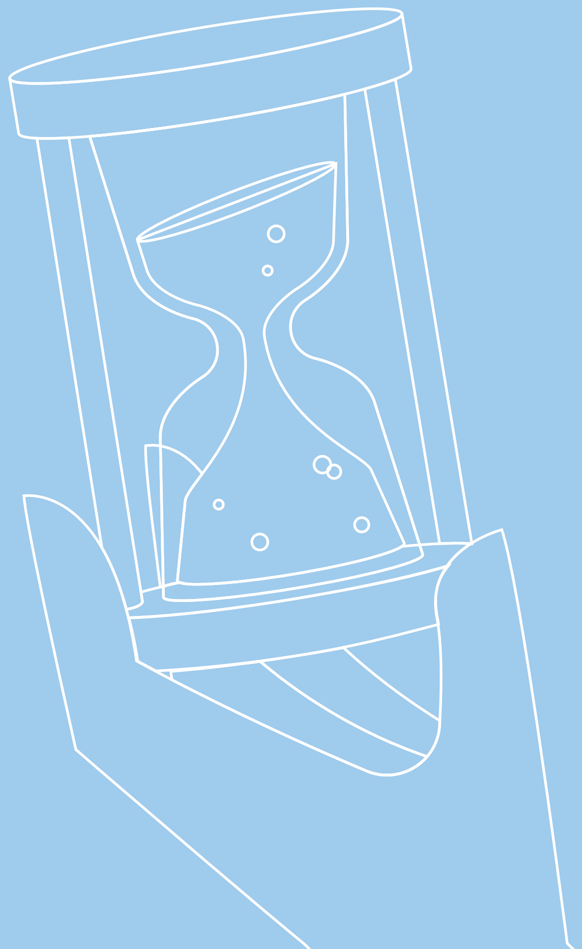
*Source - *Central Statics Office: CSO Pension Provision statistical release May 2016, Q4 2015*

Conclusion

Our experience in New Zealand bolstered our belief for the prospect of Auto Enrolment (AE) in Ireland. The trip provided valuable insights and key learnings into the technical aspects of implementing such a scheme and highlighted the necessity for AE to be correctly executed from the outset.

We are confident AE is the best approach to ensure much improved retirement savings. Reform of the pensions system in Ireland is overdue but needs to be implemented consistently across all aspects of the pension spectrum. We have consistently argued that having different incentive forms by type of pension vehicle is a bad idea. As we recommended in our submission, very low earners should receive a tax credit as a form of incentive. Investing in pensions now will provide stability to pensioners, employers, the economy and the State in the future.

We implore the government and all stakeholders to act with urgency to make AE happen quickly and successfully.



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