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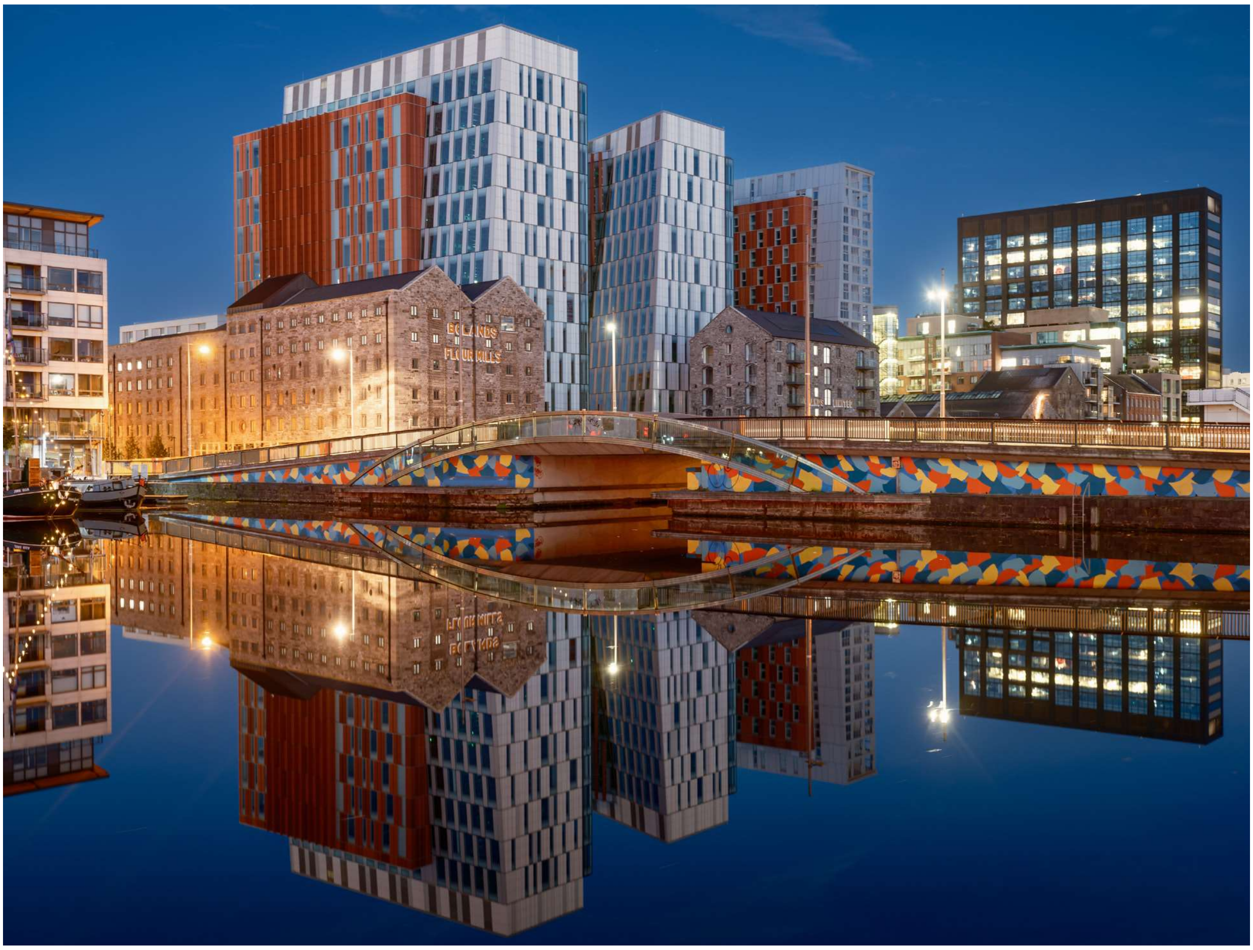


AE Policy in Ireland
A Critique

Sponsored by Irish Life

June 2022

Purpose of this document

The Irish Government has published details of the 'design principles' for the Automatic Enrolment Retirement Savings System for Ireland.

As experts on international pension systems, it hasn't filled us with confidence. Here's our response to the consultation.

We believe the DSP's approach will:

- Do little to address the gender pensions' gap
- Could be costly for the taxpayer – setup CPA costs in likely loan formation
- Seek to minimise employer disruption as part of the enrolment process
- Generate financial and political risks in terms of technology build
- Be highly ambitious to meet existing deadlines
- Complicate taxation treatment of workplace pensions
- Create governance challenges
- Create administrative challenges although positively mindful to minimise employer costs

[1]

The DSP has chosen possibly the most expensive and complicated route to auto-enrolment in Ireland.

Issues for the low paid and women have partly been excluded or not canvassed.

Seeking to embrace auto enrolment should be welcomed but the important global lessons of AE implementation should be considered carefully.

[1] We acknowledge sponsorship of this report by Irish Life. The opinions are solely those of the authors.

We believe the DSP's approach will on a more positive note:

- Energise the debate around the need to ensure retirement savings is sufficient in retirement.
- Seek to address the proliferation of small accounts – pot follows member
- Largely ignores the vast experience of the financial services industry
- Minimise consumer investment choice rather than concentrating many members into the default life-styling options.

This report highlights how the DSP solution differs from what works elsewhere.

Experience and expertise from across the globe have been available to the DSP but it has chosen a route which has largely ignored most of the signposts.

This report will explain the rationale for taking this viewpoint with commentary from experts in Australia, New Zealand, UK and Ireland and the observations of the OECD.

These experts are:

The Hon. Nick Sherry, one of the architects of the Australian compulsory system, Chair of Trustees

Dr Susan St John, associate professor in and the director of the University of Auckland Retirement Policy and Research Centre.

David Harris, 1996 AMP Churchill Fellow, Managing Director, TOR Financial Consulting Ltd

Jerry Moriarty, CEO of the Irish Association of Pension Funds (IAPF)

Let's encourage AE workplace retirement saving by making it more accessible and simpler to understand.

Foreword by Hon. Nick Sherry

former Australian Minister for Superannuation, (Pensions)

Design Principles for Ireland's Automatic Enrolment Retirement Savings System is to establish a totally new, separate, and very different system from that which already exists in private pensions provision in Ireland.

My 31 years direct experience in the design and operation of the Australian system – compulsory defined contribution – includes acknowledging some mistakes were made. Some were left too long to be resolved and international experience has highlighted some other issues. Based on all of that these are my observations concerning the disadvantages and risks of the published Irish approach.

Political/policy challenges

A government system means the government of the day will have a "duty of care" to directly respond to criticism when mistakes are made. These inevitably happen in the implementation of a new system, including for events beyond its control such as adverse investment return from volatile market movement. Mistakes are many, varied and significant. Those investment related issues include investment returns (the probability of a negative return at some point), prohibition on some types of investment such as ESG, overseas investment and pressure to invest in 'nation building' projects such as infrastructure. IT and administration cost and risk also need to be considered.

IT and Administration

A totally new system, even with the best build in the world, carries time and cost risks. Costs, at least initially, will need to be paid for from the government budget. How much and at what level, if any, will be cost recovered via the member administration fee? We see it necessary that the DSP will need to go to the Department of Finance for a 'loan' for the initial startup costs of the CPA. These costings should be released by the DSP or requested via freedom of information legislation. A level of subsidy will disadvantage existing private sector providers. Where will we see competitive neutrality? Existing providers have greater operational experience, and their own systems have base scale which can be efficiently utilised.

A new 'Berlin Wall' will exist between the two worlds it will be difficult to integrate in areas such as multiple accounts in the total retirement system. Whilst limiting the number of investment providers to 4 (or a similarly low number), and requiring competitive tendering is conceptually sound, why not apply such parameters to existing whole of service operators within the existing system, and allow them to auto enroll new members? That would give lower risk and lower cost overall. To overcome the challenge of multiple accounts because members are in two separate systems and move when changing employment, why not introduce an auto consolidation requirement across all providers within a few years of operational commencement which reflects performance and value for money? Australia has introduced a 'stapling' system that limits the creation of new accounts and thus curtails the creation of new accounts. This approach would solve the challenge for all participants not locked into the existing system of providers, and seek to generate consistency between both systems.

Equity and Fairness to participants

The proposed age and €20,000 participation thresholds appear high. They will effectively exclude the low paid, casual, and majority female workforce (not withstanding they can opt in but, very few will). They will miss out on not just higher savings for retirement but the employer and government contributions. Will temporary entrants be included? Otherwise Irish low-income workers will be disadvantaged in employment opportunities.

These and other matters are considered in Section 3

Section 1

David Harris, MD, TOR Financial Consulting

Good design or just more complexity?

Why ignore the vast experience – technical infrastructure, pension administration and information technology of the financial services industry?

The OECD's *Good Design Defined Contribution Pension Plans* report has been somewhat ignored by the DSP with respect to making DC systems as inclusive as possible and ensuring effective, personalised, regular, consistent, and unbiased communication to members. The underlying assumption by the DSP is that contributions and eligibility will be fixed but we know that the trend is for more flexible contractual work and working conditions.

Many workers already have good, well managed occupational schemes with expert investment, administration, and governance features. Under the proposed scheme, employees may have to manage their existing occupational pension arrangements and the State-run AE with a new employer. Rather than simplifying pension arrangements for employers, encouraging coverage and contributions for employees it likely means a complex weave of choice architecture will be required by trustees and employers, so that all their employees are being treated fairly between the two parallel systems.

Practical issues for employers if an occupational scheme exists, will be where the duty of care or governance will exist for AE provision. Member engagement meetings, interactions and materials will need to be tailored to the needs of employees in occupational schemes and those with a blend of solutions – old occupational schemes, new occupational schemes, or the auto enrolment arrangement. The suggested member engagement for the new scheme will be an online portal and the State-established Central Processing Authority (CPA) which will prescribe investments for each employee. Life-styling investment seems to be the preferred approach by the DSP. Data will need to flow between the fund manager and the CPA to give more precise proposition design.

Employers, as seen in the United States, may need to track employees who have differing personal taxation considerations and prompt employees to re-enrol into the AE scheme, if they have not done so, and from what date (date of hire or a national date)? This will be a considerable administrative burden for employers and the selected fund managers generating the corresponding investment products.

A reasonable alternative would be to make existing occupational schemes AE compliant with similar tax treatment and pension contributions to that offered by the CPA. This was the preferred approach by the UK when embracing AE to create a level playing field. We do not recognise the argument by the DSP that having two parallel systems will be a compliance or HR value for the employer.

Without tailored engagement the likely route for most auto-enrolled workers will be towards default solutions. Their design and effectiveness will be under tremendous scrutiny. Ireland is proposing far fewer investment options than the UK, New Zealand, and Australia. Savers will have to rely on the CPA to provide 'financial friendship' – a long way off the ideal employee benefit arrangements enjoyed in the past.

We are also aware of the political realities and the need to pass enabling legislation in the next 12 months, that will force pension reform policy to be expedited quickly. Anything later will run into problems with the planned General Election. The supposed mantra 'it is better to have something better in place than nothing' needs to be refined to include 'being fit for purpose'. Coherent pension policy needs to acknowledge that IORP II is in effect pushing forward mastertrust development – 'once in a generation change frontier' and at the same time the CPA, regulated by The Pension Authority will need significant compliance and regulatory resources. Will it be in effect a super industry wide mastertrust like State Retirement Plans in the United States e.g., Illinois or Oregon or Australia – Hostplus as an example? The employer could in effect be confronting significant complexity if they have a blended workforce of CPA AE and existing DC, occupational scheme members.

Would they have integrated benefit statements and member engagement experiences? Could employee data be combined in one computer file? How will data protection laws shape member experiences?

For any regulator, with oversight centred on a CPA, the need for a 'gateway or inter-connector' to existing occupational pension arrangements will be key. Globally there is a push on by regulators to see 'value for money' generated for employees along with containing the multiplicity of charging points - multiple accounts. In the long term, allowing members to use a gateway to merge accounts will be necessary. We see the CPA resisting this ability to maintain its financial modelling and long-term repayment of any debt. Seeking to determine retirement benefits from a blend of tax treatments TET and EET will be 'devilishly complex'. Again, this is seen in the United States with traditional and Roth 401(k)s being adopted by some employers. We also acknowledge the existing tax relief for public sector workers will see complexity generated that impacts on their pension provision under this suggested model. Blending seeks to provide a panacea for those employees who are highly mobile and who will move between employer sponsored occupational pension and State sponsored AE pension arrangements.

Ireland has excellent literacy standards among OECD nations but that doesn't necessarily translate into employees and employers being able to find their way through the pension maze. The OECD has looked at this issue from an international perspective of overall financial literacy matched against educational attainment.

Comment from Nick Sherry: *Existing employer providers of pension arrangements will be excluded from the AE scheme. I understand this point but what happens where they do not meet the requirements of the proposed new system. Will existing schemes be required to opt out and have the same contribution levels? Many might fall below the proposed minimum. Will a requirement be needed for allowing existing occupational DC schemes to become AE compliant? There should be a requirement to meet the minima of the new system from an equity and fairness perspective for existing pension arrangements.*

It could be costly

In fact, it is impossible to say what the eventual cost will be, but the signs are not good. The DSP is proposing to build or outsource its own system ignoring a low-cost alternative already in place in the private sector.

Oddly, and unlike New Zealand, the UK, the US and Australia, the Irish plans do not use the existing financial services infrastructure to any great degree. Irish financial services companies with long experience of DB and DC workplace schemes have been side-lined. This is a significant deviation from the 2018 'Strawman' document produced by the DSP. What happened during the period of Covid 19?

In its place Ireland will have a State-sponsored administrative hub brokering 5-7-year contractual relationships with four fund managers. Generic fund asset classes will be based on lifestyling and there will be a default fund. Savers will not have investment choice. Where is the incentive to get good returns at low cost?

The Irish trade union movement has criticised the potential cost of private sector involvement in auto-enrolment. It has offered the view that the UK's NEST offers cost-effective pricing. We think this a mistake. In fact, contribution and ongoing charges make the NEST offering more costly than some bundled, trust-based solutions. In Ireland the true cost of the suggested auto enrolment policy could be the risks associated with complex IT delivery of pension administration. Nick Sherry will expand on these cost concerns in his section.

For that matter, where is the guarantee of good returns for the taxpayer who will be funding the start up?

In the UK, NEST – the non-departmental public delivering generic auto-enrolment – owed the Department of Work & Pensions (UK taxpayers) £884 million (€1,051 million) in 2021 for its development and delivery. This was up £106 million (€126 million) in 2020.[2] The total taxpayer loan is expected to reach £1.26 billion (€1.50 billion) in 2026. It may be paid out by 2038.

To assist with loan repayment, NEST has a defined contribution charge linked with its mastertrust of 1.8% and an AMC of 0.3% which broadly equates to 0.5%. For lower income workers this is disproportionately high compared with schemes that offer bespoke pricing in the private sector. Scheme administration and fund charge levels have increased by 11% year – 2019/2020 > 2020/2021. This can be partly explained by NEST's movement into private equity and illiquid investments plus growth in scheme membership.

The charges price cap in the UK is 0.75% and in Figure 1 the DWP's commissioned report on UK charges shows bundled trust-based solutions are lower than NEST's charging level and well below the price cap suggested by the DSP. Assets in NEST are now at £17.9 billion and membership has increased from 9.1 million to 9.9 million but at the same time, average balances are continuing to decline to £1,808 (€2,149). A large proportion of NEST members are not profitable and likely to stay like this for a long period. Profitability for the CPA is likely to be similar. The original UK Turner Commission in 2003 envisaged that NEST would have little or no competition for AE business. This is not the case, and active competition has contained costs and charges.

TOR suggests the Irish AE charges of 0.5% will not be sufficient to cover costs and some form of a state loan will likely be needed. But no financial analysis appears to be available. The administrative system will need to be tendered and outsourced we argue. NEST's contract with Atos is expected to be £1.5 billion (€1.78 billion) over 18 years.[3] The Department of Social Protection will need to take account of competition rules on national and EU levels if loans, subsidies, or beneficial tax arrangements are confined to the CPA entity. The timeline of 2024 is very optimistic.

In Sweden, their PPM account administration infrastructure was outsourced twice. In one case it involved litigation to resolve a commercial dispute before an in-house, highly expensive solution was developed. Bespoke technology projects without scale often encounter cost overruns and time delays. The clearinghouse in Sweden was intended to contain costs for the consumer but the in-house IT and pension administration project became significantly more

[2] https://www.pensions-expert.com/DC-Auto-enrolment/Nest-to-break-even-in-2024-and-eyes-loan-repayment-by-2038?ct=true

[3] https://www.theregister.com/2021/03/10/atos_nest_contract/

expensive than expected. The actual cost is not transparent.[4]

We argue that Ireland will not have the scale needed to ensure a cost-effective, bespoke, in-house solution. A quick review of what happened in Sweden and to a lesser extent New Zealand would be a good idea.

In addition, and as discussed in the taxation section, we think Ireland's finances will be placed under strain by adopting a TET model, with upfront costs used to encourage workers to participate. The UK preserved its long established EET pension taxation approach when applied to auto-enrolment. A direct cost will be encountered by the Department of Finance, complexity costs will have to be met by employers and how will the The Pensions Authority fare whilst seeking to simplify pension regulatory approaches, especially around the fallout of IORP II?

There will be an inherent cost of governance in the selection of the four fund managers by the CPA. Cost and process considerations were adopted by the selection of default options for KiwiSaver, AE solutions.[5] If ignored, faltering consumer confidence in the system will be a likely consequence or cost for the Irish Government. The cost of disrupting the ARF and annuities market will also need to be considered if the CPA steps in and seeks to conduct a bulk auction of retirement income capacity from the marketplace. It should be stressed that NEST saw its efforts to enter the retirement income market rejected by the UK Government.

More costs will be encountered by employees who must seek advice to arbitrage between two different pension taxation approaches and the attendant confusion, uncertainty, and dislocation in the newly introduced auto-enrolment solution. Employers will likely encounter costly HR scenarios in retaining employees and seeking to understand and maintain differing pension taxation solutions and re-enrolment requirements after possible opt out.

Dr Susan St John and The Hon. Nick Sherry intend to go into more detail, in their sections, concerning some of the costs associated with the proposed features of the auto enrolment.

Getting investment right

Investing for what outcome?

It is worth noting that the UK is seeking to relax its price cap to stimulate investment in infrastructure and environmentally sensitive projects. Some economists have questioned whether this is inefficient and encourages product innovation?

The UK's Department for Work and Pensions stated outlined proposals "...to enable automatic enrolment pension schemes to make greater use of performance-based fees, which are payable to an investment manager only if they generate high returns on their investments.

Currently these fees are included within the pension scheme charge cap, meaning they are rarely considered viable.

[4] https://crr.bc.edu/wp-content/uploads/2004/08/ib_4-22_508.pdf

[5] https://www.mbie.govt.nz/business-and-employment/business/financial-markets-regulation/kiwisaver/appointment-of-kiwisaver-default-providers/

If implemented, these performance fees would be excluded from the charge cap, helping schemes – if they choose to utilise it – overcome barriers to long-term investment and provide new opportunities to invest in areas such as British businesses and green projects.

The intention is to make it easier for schemes to access new channels of investment – such as funding for new British start-ups and the infrastructure needed for the transition to net zero – known as "illiquid investments". This move can offer greater returns to savers whilst continuing to ensure they remain protected from being charged high fees despite low returns.

UK Minister for Pensions, Guy Opperman, said:

"As automatic enrolment has developed, we have always wanted to ensure the best outcomes for members. This consultation will look at ways to enable schemes to take advantage of long-term, illiquid investment opportunities and provide better returns for members.

Lifting these barriers can also help contribute to the key role finance has in tackling climate change, by mobilising private finance towards clean and resilient growth and addressing

market barriers to longer-term investing in green projects.

The 'Enabling Investment in Productive Finance' consultation, announced at the Budget, builds upon the principles laid out in previous consultations on improving member outcomes and addressing barriers to long-term illiquid investment."[6]

A balance needs to be struck between rates of return and investment design, along with corresponding costs. It is too simplistic to concentrate on costs alone without the necessary trade off in encouraging long term rates of return through possibly illiquid assets or alternatives more broadly. This development has occurred in Australia where superannuation funds have increasingly invested in infrastructure assets with consistent higher rates of return, in some cases, and mitigated risk against certain asset classes. New Zealand has not used fee caps with the KiwiSaver, auto-enrolment model, preferring regulatory intervention to help define what is fair and reasonable pricing along with value for money for the consumer.[7]

As an aside, Australia through largely 'recycling and reusing' its existing pension administration and funds management capabilities has progressively seen a sharp increase in assets under management over time. Year on year these assets have increased from March 2021 to March 2022 by 9.7%. Overall superannuation assets stand at $3,441.5 billion (€2,273.7 billion).[8]

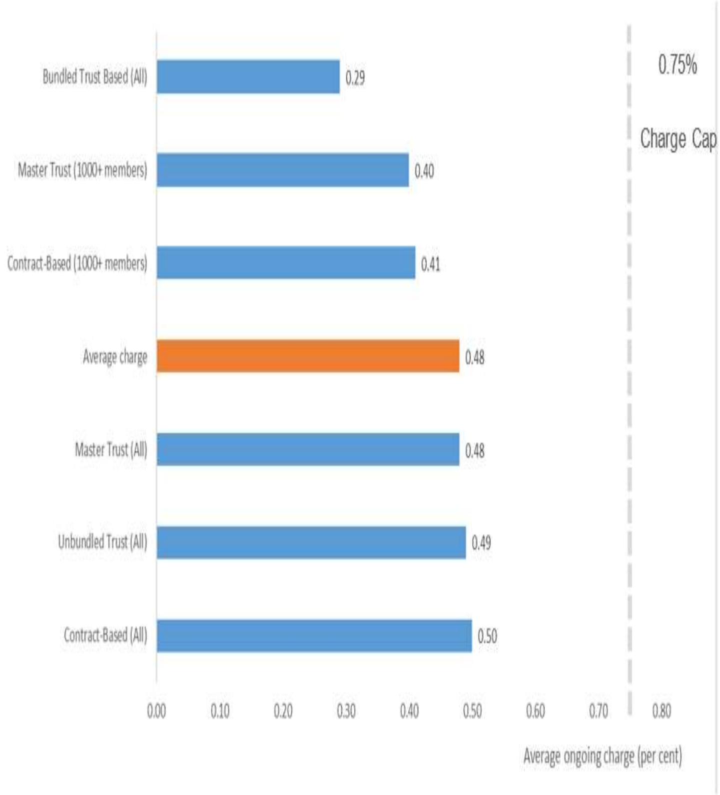
Will existing financial services entities seek the ability to offer similar taxation incentives to those offered by the state-sponsored scheme? Will they be prepared to challenge legally the awarding of outsourced administration or funds management contracts because of potential inadequate governance and conflicts of interest?

[6] https://www.gov.uk/government/news/pensions-charge-cap-changes-outlined
[7] https://www.fma.govt.nz/news-and-resources/media-releases/consultation-kiwisaver-fees/
[8] https://www.apra.gov.au/news-and-publications/apra-releases-superannuation-statistics-for-march-2022

Relationship between employers, employees and trustees will become more complex when there is a mix of existing and new AE workplace schemes. Making existing schemes, AE compliant, as occurred in the UK maybe necessary for acceptance and generating the broad political success of the policy.

"Automatic enrolment significantly increases participation in occupational pension plans at the company level compared to voluntary opt-in arrangements… At the national level, however, the impact of automatic enrolment on participation levels may not be as strong, it depends on the scheme's design. While the introduction of automatic enrolment reversed the previous downward trend in participation rates in New Zealand and the United Kingdom and is accelerating the pace of development of the private pension system in Turkey, the effect has been more modest in Chile, Italy and the United States."[9]

Figure 1: Average ongoing charge paid by member of each scheme type [Source: Pension Charges Survey 2020, DWP][10]



'The blind choice model' of differing fund investments along with a default pre-supposes that the Irish public has forgotten about the 2008-2010 Global Financial Crisis, austerity, and the need for the National Pension Reserve Fund to be diverted into buttressing up public finances.

[9] https://www.oecd.org/finance/Financial-markets-insurance-pensions-inclusiveness-and-finance.pdf, p.10.
[10] https://www.gov.uk/government/publications/independent-review-of-the-national-employment-savings-trust-nest/an-independent-review-of-the-national-employment-savings-trust-nest

State-built IT projects: Political and Economic realities

We understand that the Department of Social Protection is recognising that the technology and delivery requirements for the planned AE approach is somewhat ambitious, challenging and technically difficult. Paying large volumes of State benefits through operations at Sligo doesn't neatly equate as a proxy for success in engineering a complex auto-enrolment system for 750,000 new entrants. The delivery time of around 2 years, to begin the new system is internationally considered highly ambitious.

Unlike Australia, Sweden and New Zealand, Ireland seems not to want to harness the IT and infrastructure of the Revenue Commissioners (Revenue). The Inland Revenue Department in New Zealand was central to delivering KiwiSaver quickly from the budget announcement in 2005 to the AE system being up and running by mid 2007. The cost in achieving this is believed to be $NZ 450 million (€278 million).

It may be that the Revenue was not enthusiastic about involvement in the auto enrolment system. The Office of the Data Protection Commissioner will need to be co-operative, however, in helping the CPA to carry out its functions of aggregated or global numbers shared with external fund managers and technology providers. Again, this will make bespoke member engagement difficult.

The Australian Taxation Office did assist directly in the development of a revised pension system over two years. Encouraging compliance, tracking lost accounts, and monitoring employer and employee contributions realised a fast roll out of the Australian superannuation system. The evidence suggests that enabling quick introduction of AE needs close co-operation with Revenue and others to share data interfaces and tracking capabilities via membership portals for example. Both countries also harnessed existing infrastructure from financial services providers

The technology that will drive the functionality of the CPA will almost certainly need to be outsourced to an international vendor or domestic provider who has a track record for auto-enrolment and pension administration. Software will be needed to enable front-end user experiences, middle and back-office engagement with unitised assets, recording and accounting and broadly talking to the selected four fund managers to receive auto enrolment contributions. The challenge for the DSP and the CPA will be working on the specifications of any technology solution, seeking to find competitive procurement agreements, and ensuring that the technology works and is delivered within an aggressive timeline.

For any country this is a tall order and as the OECD suggests any good DC pension design and AE solution must seek to maximise coverage and have well defined objectives that encourage public confidence in the system.[11] Ireland's approach has very much changed from the 2018 Strawman document where the experiences of New Zealand and the UK counted more than the Swedish experience. After a DSP delegation, EU sponsored research visit to Sweden in November 2019, the emphasis has now shifted abruptly to embracing Swedish learnings from the first pillar.

[11] https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0429, p.5.

It is important to note Sweden's Professor Edward Palmer's (input into the revised DSP approach) enthusiasm for clearinghouses, specifically, is best seen in his paper *The Swedish Pension Reform Model: Framework & Issues* where he suggests that: "A central question in the development of the Swedish model was how to set up the system so as to minimize administration costs. It was generally held by those familiar with the Chilean and the UK systems that these generate high costs. Was there a less costly alternative to these models? With this objective the Swedish 'clearing house' model of administration was created." Palmer goes on to describe the approach of the Irish CPA AE model: "The idea of the clearing house is to allow freedom of movement of money into and out of funds at minimum expense. This is important in the Swedish system, since people are allowed to invest in virtually all market funds, but at their own risk. …This model already existed in the financial market, where there were private fund managers with more than one fund offering this service within their own group of funds."[12]

The Swedish clearinghouse concept and limiting choice to fund classes rather than individual choice seems another radical shift from the Strawman document of 2018. We must acknowledge that Sweden saw litigation over the build of their PPM clearinghouse by third parties which highlights cost and time complexities. This revised approach will have an impact on the technology applications and speed of delivery. This approach is like that of the Swedish Premium Pension Agency, but it is worth noting that in 1999-2000 the Agency's attempt to create a clearinghouse through an outsourced route failed on two separate occasions. Large global IT firms were not able to deliver the requirements of the State and eventually this pension administration outsourcing was taken back in-house. The resulting cost and the need for enhanced government IT resources to find a solution was significant. Exact costings are hard to come by but the suggested estimate of €20 million to develop the CPA's functionality in Ireland seems very optimistic when you compare it the New Zealand and Swedish experiences. The political and financial risks of such delivery are notable, as highlighted by Nick Sherry and Professor Susan St. John.

To meet the aggressive timelines, any future CPA will need to outsource their pensions administration to a domestic or global specialist who can adhere to cost and governance constraints.

Such an approach has political and financial risks along with delivery challenges.

Portal and Eventual Dashboard Development

As an aside the DSP report also alludes to or flags the need for a portal which will one assumes will provide the employee with information confirming that employee and employer contributions has been made and also the possible online, real time auto enrolment balances. This approach is very much seen in New Zealand, where it must be stressed that the Inland Revenue Department (IRD) not a CPA powers a portal that allows KiwiSavers to see contributions, the provider involved and related taxation information. The key point is that much of the taxation infrastructure in New Zealand was

[12] https://www.oecd.org/finance/financial-markets/2638200.pdf, p.33.

recycled for these portals whereas any CPA will need to develop costly and complex IT infrastructure. Australia, similarly, has seen its Taxation Office embrace common technical developments to that of New Zealand's IRD.

Yet we see in Nordic countries a further enhancement of the portal concept which lends itself to develop dashboards to integrate public sector and private sector pension entitlements. While not specifically referenced by the DSP, the lessons of the United Kingdom could be salient. For over 6 years the UK has grappled with the development of the dashboard concept, largely by fintech providers who have been energised by Government policy of allowing employees to see their future retirement benefit frontiers in one spot. We accept that any system needs to minimise complexity and be flexible and IT agile to reformat consumer outputs and thus revise necessary engagement.

The enormous technological and strategic challenges, along with significant budgets being handed over to global technology entities will only see a basic dashboard being provided, possibly in 2023. Further enhancements are likely, but these will be linked with additional expenses met by government and industry. The UK lessons on dashboards provide salient lessons for future Irish pension policy stakeholders.

'The new digital service that will allow people to keep track of all their pension savings could be delayed by another two years, the industry has warned.

Pensions dashboards, which aim to tell individuals their retirement income, have already been delayed from 2019 to 2023, but experts suspect the project could be beset by further problems due to the scale of the task.

Tim Middleton,
Director of policy and external affairs at the Pensions Management Institute (PMI), warned that an even longer time frame for the dashboards could leave the UK vulnerable to another state pension age scandal, which has affected women born in the 1950s.

The industry is frustrated at the delay in rolling out the dashboards, which they believe will hugely simplify the UK's complicated pensions system by allowing people to see their state, workplace and personal contributions together online.

Last year, the Money and Pensions Service (MaPS), sponsored by the Department for Work and Pensions, said the dashboards would be ready by 2023 but a recent PMI poll has found 78 per cent of 110 pension professionals are sceptical.

"Just like Ray Davies (of The Kinks), we have become tired of waiting for the dashboard. If we look generally at the history of these big, publicly funded IT projects, they're not exactly famed for coming in under budget and on time," Mr Middleton told independent online.

"We have to be realistic about the sheer range of technical problems of putting something like this together." '[13]

[13] https://inews.co.uk/news/uk/pensions-dashboards-roll-out-delayed-two-years-2023-industry-warning-1200168

Put simply, we see the Irish Government seeking technical and IT led solutions that encourage employees and employers to embrace auto-enrolment to make it a political and economic success story, but this could become devilishly expensive and complicated, without existing private sector involvement. Any embracement or extension of an AE portal will need to be pragmatically considered against costs and IT complexity.

It will complicate taxation

Lessons in how to choose a tax incentive…?

'The tax relief system as it currently applies to traditional occupational and private supplementary pensions will remain unaffected by the introduction of AE. The two systems will work in parallel with each other.'[14]

This sounds simple but it is not. International experience is that it will complicate taxation, cause retirement saver confusion, taxation arbitrage and complexity for employers. The need for financial advice will be essential to understand Ireland's twin- track taxation.

In 2013 the OECD reviewed the Irish pension system and argued for the plain approach to workplace pensions through compulsion, as adopted successfully in Australia. If the government was not prepared to embrace that, then auto-enrolment (AE) would be a satisfactory outcome for the many workers who are not currently covered by occupational pensions. AE should avoid complexity and be straightforward for employees and employers alike said the OECD.

In its *Good Design of Defined Contribution Pension Plans* report the OECD states that financial incentives should be designed to maximise the impact on enrolment and contributions and tax rules should at least not discourage individuals to save for retirement.

They should be straightforward, stable, and common across retirement savings plans to avoid confusion.

"The design of financial incentives should reflect the retirement needs and capabilities of different population subgroups. Middle-to-high income earners tend to respond to favourable tax treatment, while low-income earners may be more likely to respond to matching contributions and fixed nominal subsidies. The incentives should be updated regularly to maintain the attractiveness of saving for retirement."[15]

The new proposals ignore these recommendations and promote a taxation treatment that is complex for employers and employees and costly for the taxpayer: *"In order to encourage workers to participate, those people who choose to remain in the system will have their pension savings matched on a one-for-one basis by the employer. The State will also provide a top-up of €1 for every €3 saved by the worker. This means that for every €3 saved by the employee, a further €4 will be invested by the employer and the State combined'.*[16]

[14] Department of Social protection: 'The Design Principles for Ireland's Automatic Enrolment Retirement Savings System', Government of Ireland, March 2022, Dublin, Ireland, p.45.
[15] https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0467, p.6.
[16] https://www.gov.ie/en/press-release/0a98a-new-workplace-pension-scheme-for-ireland-minister-humphreys-announces-details-of-automatic-enrolment-retirement-savings-system/

International experiences suggests that two net effects could occur through this revised taxation approach:

- employers and employees could become disconnected from embracing retirement savings of any form due to 'competing complexity' and

- indirectly, existing retirement savings arrangements sponsored by employers will be 'cannibalised' as was seen in New Zealand and Australia.

Coupled with the impact of IORP II, changes to the way Ireland saves for retirement could be exposed to a period of uncertainty.

Like Ireland, the UK has a similar higher rate tax relief system that was not modified to any great degree when auto-enrolment was introduced a decade ago. Research by Revenue & Customs (HMRC) in 2015 revealed that more than half of pension savers surveyed were unaware of the details surrounding higher rate tax relief.[17] By implication this suggests many do not maximise their tax relief entitlements - see *PensionBee* research conducted in 2020.[18] How is the Irish Government going to ensure that workers do not miss out on tax incentives?

To add to the complexity an employer will be likely to have employees with two different types of tax treatment, working side by side. The burden on the employer from a HR perspective will be significant, based on United States 401(k) experiences. There are two basic types of 401(k)s in the US: traditional and Roth. Each differs in how they're taxed. Traditional 401(k)s contributions are 'pre-taxed', meaning taxable income is reduced but withdrawals are not. In essence, contributions are exempt (E) from taxation, income and returns on pension fund assets are also exempt (E) and withdrawals are taxed (T). This is the approach seen in most OECD countries including Ireland and the UK. The Roth 401(k) has no tax deduction in the contribution years, but withdrawals are tax-free. In effect a TEE approach is embraced by those employees whose tax affairs are best served by such an approach.

To quote from analysis of this system: *"The Roth 401(k) further complicates the already confusing world of retirement planning for workers and firms and creates obstacles to policies that could simplify retirement saving, like the expansion of automatic features in 401(k) plans. For workers, the primary challenge is deciding how to allocate contributions and withdrawals (of less than the full account balance) to Roth or traditional accounts. In principle, those are enormously complex decisions, involving expectations of future tax rates and other factors. … That alone may well cause many workers to ignore the Roth option and stay with the traditional 401(k), but the extra complexity is not harmless. Research shows that the existence of too many choices may in fact discourage participation in retirement accounts completely."*[19]

For employers this 'twin track' taxation has real complexity and enhanced employee benefit costs. *"The Roth 401(k) will also make plan administration more difficult. For tax purposes,*

[17] https://www.gov.uk/government/publications/pension-tax-relief-awareness-understanding-and-saving-behaviours
[18] https://www.pensionbee.com/press/higher-and-additional-rate-taxpayers-likely-to-be-missing-out-on-1-billion-in-unclaimed-tax-relief
[19] https://www.urban.org/sites/default/files/publication/50191/1000868-An-Analysis-of-the-Roth--k-.PDF, p.1-p.2.

employee Roth contributions and earnings must be tracked separately from employee pre-tax contributions and earnings. …Plan communications to employees about 401(k) rules and options will need to become significantly more involved…. .'[20]

The impact of Roth IRAs in encouraging contributions into retirement plans seems negligible*. "Using administrative data from eleven companies that added a Roth contribution option to their existing 401(k) plan between 2006 and 2010, we find no evidence that total 401(k) contribution rates differ between employees hired before versus after Roth introduction…"*[21]

It is worth noting that potential labour mobility within the Irish economy could be impacted by running two parallel pension systems – AE and existing occupational pension schemes. These concerns have been raised previously in literature previously by the OECD and World Bank. We note also that auto enrolment behaviours between small and large employers is different as detailed in the corresponding Institute of Fiscal Studies' paper.[22]

In the early 1990s, Australia moved from an EET to a TTT superannuation taxation approach. This resulted in a decline in defined benefit plans. Further tax reforms shifted the system towards TTE approach, as seen in New Zealand. This change brought in large contributions from employees wishing to minimise tax liabilities, as they approached retirement. In the late 1980s the New Zealand government abolished all tax subsidies for saving and one of the unintended consequences was falling active membership by private sector employer and government employee schemes in New Zealand – 22.6% in 1993 to 14.1% in 2003. The auto-enrolled, KiwiSaver, further accelerated the decline in traditional occupational pension schemes.[23]

Dr Susan St. John provides in her response to the Strawman document in October 2018 said: "The decline in occupational pensions coverage and the shift to DC schemes facilitated the introduction of KiwiSaver. By the early 2000s it was apparent that middle income people were overall going to be poorly prepared for retirement… Workplace saving was seen as the primary way to facilitate the accumulation of additional retirement funds. …KiwiSaver was rolled out very quickly from 1 April 2007, after the government announced its intention in the 2005 Budget. Initially there were 'sweeteners' (eg. a kickstart of $1,000, a fees subsidy, an employer tax credit, and a member tax credit) as membership soared these were cut back to make fiscal savings. The case for any such 'sweeteners' could be justified by lack of access to KiwiSaver until age of 65, except for exceptional circumstances, or first home purchases. By 2018 the only tax incentive in KiwiSaver was a modest maximum of $512 (€319.60) member tax credit for contributions up to $1,043 (€650.99)'.[24]

There is a clear causation between taxation changes and the 'cannibalisation' of existing

[20] https://www.urban.org/sites/default/files/publication/50191/1000868-An-Analysis-of-the-Roth--k-.PDF, p.2.
[21] https://www.nber.org/papers/w20738, pp. 1-2
[22] https://ifs.org.uk/uploads/publications/wps/WP201907.pdf, p.5
[23] Dr Susan St. John: 'Feedback from New Zealand experience on the 'strawman' proposal for Irish pension reform', Retirement Policy Research Centre, Auckland, New Zealand, October 2018, pp.10-11
[24] Dr Susan St. John: 'Feedback from New Zealand experience on the 'strawman' proposal for Irish pension reform', Retirement Policy Research Centre, Auckland, New Zealand, October 2018, p.12.

occupational pension plan provision. Is this progress?

It will create unique administrative challenges

Will the pension pot ever follow its owner?

Comment from Nick Sherry: *The CPA is proposed for several reasons including simplicity for the employer and employee. Simplicity? It is suggested that one pension pot will follow a saver over multiple employments. But there is only one pot held by the CPA. What about the multiple pots accumulating in existing DC schemes? Many auto-enrolled workers will continue have multiple pots by moving to an employer without provision i.e., out the new system then changing employment back into the old system from time to time. It does not solve the fundamental problem of multiple pots in the entire system. A full and genuine 'pot follows member model' could be adopted across the existing and new system and should be considered as a priority.*

Additional challenges for the new CPA will be:

- *The creation of a new administration system that parallels the existing set of providers which the report acknowledges will be allowed to continue and be in existence for many years to come.*
- *Extra cost and risk from an entirely new administration.*
- *Proving to be more cost effective than licensing 4 to 6 existing pension providers – who already have existing administration – to be the total providers (admin and investment) within the new system. It is worth highlighting that utilising existing providers, subject to rigorous licensing and oversight, would be far less costly, risky and time consuming for implementing a new system. The government would not be bearing the direct risk and cost.*

It will create governance challenges

Governance expertise, where is it?

From a governance perspective three issues are of interest:

- CPA design and operations and
- existing good scheme governance embraced by employers and trustees alike.
- Taxation implications and the need for advice will be necessary for some employees. These aspects shouldn't be ignored by the CPA.

The CPA will in effect be a Non-Departmental Public Body, like NEST in the United Kingdom, and certain procurement and funding requirements will need to be followed. It is likely that the integrated pension administration system, with associated interfaces and APIs, will need to be built from scratch rather than taken off the shelf. With the pressing timelines for the 2024 big bang launch and need to contain costs, will see pension administration outsourced. Compliance and human resource talent, out-of the-money risk would need to be mitigated through legislation and project delays will need to be factored in. State retirement plans in the US – Oregon and California and NEST have run detailed procurement and outsourcing exercises. Strong oversight is needed to avoid any possibility of conflicts.

This process will need to be resilient to avoid legal challenges in the future. Similarly, the selection of four fund managers in offering investment options and a default will be critical to ensure public confidence in the overall retirement system. Consumers are increasingly asking where their retirement savings are being invested e.g., Russia and equally how such investments are addressing climate change. It will be essential that the CPA has elaborate governance reporting for members and clear, transparent mechanism to explain how the four fund management options are selected or determined. In New Zealand, the default carousel has been a source of scrutiny for the Government and the regulator in how default funds are selected and perform. Dispute resolution processes, appeals processes and the regulatory interactions with the Pensions Authority will need monitoring. CPA functions should be at real arm's length from Government to avoid conflicts of interest from investment in useful schemes such as national infrastructure.

Employers and trustees should want to treat all employees fairly when it comes to retirement savings. The challenge will be to maintain acceptable governance reporting for all employees. Any enrolment or re-enrolment process of old or new workers, previously involved with an occupational scheme will need to be carefully considered. From a governance standpoint, the need for an enhanced Dashboard for members, as seen in Sweden or Denmark and anticipated in the UK, will be needed sooner rather than later. Government and the DSP will be eager for members to see their balances and their pots of money growing, partly through government contributions. This was the experience in New Zealand where Labour Government advocated member transparency to ensure confidence in the system was established quickly.

ESG fundamentals are becoming more pressing for all pension funds across the globe. Again, the OECD raises this issue within the confines of its Good DC Design report. How will the CPA do this?

For employers and members to have confidence in a State sponsored programme that is different from other AE programmes globally, governance will need to be highly visible and accessible. The State should work in concert with the financial services industry on this issue.

It will fail the adequacy and inclusive aims for workers

Wasn't it supposed to be for every worker?

Has anyone asked women what they think?

We note the comparatively low contribution rate, compared to other OECD nations along with the auto enrolled age beginning at 23 years, rather than a more pragmatic 18 years to encompass, especially women who may leave the workforce early, to have children or move to part time employment.

Comment by Nick Sherry: *"The threshold of €20,000 is very high. Far higher than the UK (€11,937) and Australia – which was A$450 (€302) a month (now removed) and far higher than any system I am familiar with. Whilst the Memo gives the number of new members expected to enroll – an extra 750,000 – it does not state the number that will be excluded. They will be very significant – in the 100's of thousands and overwhelmingly women and sectors such as retail and hospitality. This unreasonable exclusion is acknowledged by stating they can opt in – who would do so given* *the employer would not want to pay a contribution and would discourage them from doing so? Also, what about temporary entrant workers. There is no mention of these. If they are not included there will be an incentive to hire overseas workers. There is also an issue about conformity with EU regulations if they are excluded.*

On eligibility, the age of 23 is too high. Why not 18?

The proposal is that workers can opt out on each occasion contributions increase. This is the worst possible time. If opt out is allowed, it should be at a time when contributions are not being increased. Likewise with suspension of contributions at any time. These provisions encourage knee jerk responses to short term personal financial impacts without consideration of the loss in any considered way. Opt out should be confined to a specific time in each financial year.

It's unique but it is ideal?

Why is the Irish Government doing something entirely different?

Many countries have built on their existing pension infrastructure, but Ireland has chosen instead, a state-controlled, auto enrolment solution where bespoke technology will be needed, and investment choices will be taken out of the hands of savers. Equally the skills, lessons and technological solutions from the indigenous pension industry are largely be ignored, in favour of creating a second 'pension track' for savers to run along. Bridging or moving between the existing and new AE 'pension tracks' will be complex and may invariably need financial advice.

Comment from Nick Sherry: It is vital in any argument that is advanced against the proposed CPA that an effective alternative model is presented and include an effective solution to multiple accounts. We suggest an interconnector or gateway between the existing occupational pension and AE sectors will be needed.

We see an overall delivery time of 2024 being extremely optimistic with a full comprehension of the work to be done being limited. A likely rash of technology and pension administration consultants will be needed if this target date is to be met.

The proposed model stands out on its own for what may occur, based on some Swedish experience. While lifestyling has been embraced in the US and partly in the UK, Australia and New Zealand are less sanguine on its merits. Shaping individual outcomes for all members will be necessary. The DSP is arguing for minimum branded or obvious brand choice, in favour of a 'blind choice model – where you choose the type of investment options. In the US, the Illinois Secure Choice model provides a similar framework to what is proposed in Ireland – in part. It is worth noting that the Swedish experience is different from traditional Anglo-Saxon pension solutions that emphases trustee-based solutions. We see the cost of choice being mitigated with employees not choosing brand but a fund type arrangement. Default design will be critical to meet the expected 85% to 90% default demand, based on international experiences. The Australian experience in terms of data matching to compress the proliferation of small pots is worth embracing as an alternative. Educating and overcoming financial illiteracy will be a significant cost that needs to be overcome in Ireland. Harnessing private sector pension lessons surely is an ideal worth embracing – now and in the future.

Section 2

Irish Pension Fund Perspective of Suggested Irish AE

Commentary by Jerry Moriarty

CEO of the Irish Association of Pension Funds (IAPF)

The publication of the Design Principles for Ireland's Automatic Enrolment Retirement Savings System is welcome as it allows the project to start moving on to the final implementation stage.

It has been clear for many years that we need more people to save for their retirement and Automatic Enrolment is a proven and effective way of achieving that. It has also been in operation for some time in other countries so there has been an opportunity to learn from those. This is evident in the design which is attempting to deal with issues such as the proliferation of multiple small accounts and trying to lessen the burden for employers. The proposed contributions levels also address the adequacy issue.

From an IAPF perspective, we represent those who already have pension provision in place. So, while being very supportive of need to introduce Automatic Enrolment from a public policy perspective, we also want to ensure it doesn't undermine existing pension provision. **The interaction with the existing system will require careful consideration.**

The first area where this will impact will be, is in identifying the population to be enrolled. Use of real-time PAYE data would allow the identification of those aged 23 or over, earning more than €20,000 and not currently paying a pension contribution. However, some of those not paying a pension contribution could be in a non-contributory scheme and not eligible for AE. Others might have an employer's scheme available, but they are still in a waiting period or have chosen not to join. These scenarios are likely to involve some employer interaction to ensure the right people are enrolled or, possibly, given another chance to join if they would be better off in the employer's scheme.

It also isn't clear at this stage what checks will need to be in place to ensure membership of an employer's scheme will, at least, be equivalent to AE. This is only likely to be an issue when the contributions reach the proposed level of 14%. The differing tax treatment of contributions further complicates this. For example, an existing employer scheme could have 6% employee and 6% employer contributions, which would be the same as AE. However, because there is no direct State contribution, the overall contribution is less than 14%. It is not clear how this can be fixed – do the employer or employee contributions need to increase or is it just deemed equivalent? If existing schemes are going to have to restructure their contributions, they will need to understand how and when they need to implement this.

There will also be people who will move between the 2 systems as they move from employers who are using AE and those with individual schemes.

How benefits payments for those people are handled will be important as they could be coming into payment at different times and, possibly, different formats. **The differing tax incentives will complicate an already complicated system.**

Anther aspects of the design that requires further detail is the structure of AE. Will it operate as an occupational pension scheme, as NEST does, or be something different? Ideally, it should be the same as the rest of the system, so people are getting the same level of governance and information.

It remains to be seen if the splitting of the contributions among the investment managers will impact on the level of interest of investment managers and whether the proposed fee cap is feasible (at least at the beginning). **It is also important that the managers are encouraged to be innovative and competitive to maximise returns for members.**

Overall, there is a lot of detailed work to be done to get AE up and running in a way that ensures the best outcomes for those without pension provision while not undermining existing good provision.

Section 3

Commentary by Nick Sherry

These points relate to key aspects of the proposed design in such areas as Key Design Features, the Central Processing Authority, and others. Matters are referenced to chapters and page numbers in the March 2022, DSP document. Some of these points have already been covered in the report but are emphasised further.

Key Design Features – 3.1 ,3.2 and 3.3: Eligible Population, etc. on pages 19 to22

The threshold of €20, 000 is very high. Far higher than the UK (£10,000) and Australia – which was A$450 gross per month (now removed) and far higher than any global pension system I am familiar with currently. Whilst the document gives the number of new members expected to enroll – an extra 750,000 – it does not state the number that will be excluded. It will be very significant – in the hundreds of thousands – and overwhelmingly in sectors such as retail and hospitality. It will disproportionately impact on women. This unreasonable exclusion is acknowledged by stating they can opt in – who would do so given the employer would not want to pay a contribution and would discourage them from doing so? What about temporary entrant workers? Also, the age of 23 is much too high. Whatever happened to the adult age of 18 years?

Opt-out to be allowed on each occasion that contributions increase. This is an inappropriate alignment and the worst possible timing. If opt-out should occur, it should be at a time when contributions are not increasing. Likewise with suspension of contributions at any time. These provisions encourage knee-jerk responses to short term personal financial impacts without consideration of the loss in a considered way. Opt-outs should be confined to a specific month/s.

Existing pension/employers' providers are excluded. That's fine however but what happens where they do not meet the requirements of the proposed new system? Will existing schemes be required to have opt-out and have the same contribution levels? Many will fall below the proposed minimum. They should be required to meet the minima of the new system from an equity and fairness perspective.

I am broadly supportive of the contribution levels and government top up. The time frame could however be a few years faster - quite protracted.

Central Processing Authority. Pages 23 to 25.

The CPA is argued for on a few grounds such as simplicity for the employer and employee i.e., one pot follows members. Actually, it is not pot follows member as there is only one pot via the CPA. But what about other multiple pots accumulating in the existing system (DC only)? Many people will still have multiple pots in the old system and move to an employer without provision i.e., out the new system then changing employment back into the old system from time to time. It does not solve the fundamental problem of multiple pots in the entire system!

Accordingly, together with an alternative admin provider model a full and genuine 'pot follows member model' should be adopted across both the existing and new system. Defined benefit would be left as is. This is the Australian model in effect. To do this a master ID number (PPSN) needs to be utilised for all DC accounts (either an existing one - in Australia's case the Tax File No- but if not an allocation of one pension number, over time, for existing and new members. This will ensure all providers are cross linked by a central transfer administration point to auto transfer inactive accounts (for example no contributions for the previous year at the end of the calendar year and cross transferred into the current active account). Its implementation need not be rushed but all providers would have to adjust their IT systems to participate.

The additional challenges of a new CPA are:

- why create a new administration system to parallel the existing set of providers which the report acknowledges will be allowed to continue and be in existence for many years to come?
- extra cost and risk
- why not license - say 4 to 6 existing pension providers - who already have existing administration to be the total providers (admin and investment) within the new system? Subject to appropriate licensing conditions such as independent trustee governance and a standard, simple investment menu (the proposed investment mix of 4 options seems appropriate, particularly at the commencement of a new system - too much choice is confusing and costly). Utilising existing providers, subject to rigorous licensing and oversight is a far less costly, risky, and time-consuming approach to implementing a new system. The government is not bearing the direct risk and cost.

3.4 Role of Registered Providers

The approach outline above would effectively be the Registered Providers.

3.6 Opt-Outs

It must be a simple and as limited as possible otherwise the central purpose of the new system – to add to retirement income – is undermined. It must not be seen as a short-term fix to immediate financial issues. Suspension of contributions should be allowed but say only in one month of the year and no withdrawal of existing savings at all should be allowed.

3.7 Pension Drawdown

The stated intention is to create an additional new Pension System for those (some) who are not covered by existing workplace pension provision.

One of the great challenges of all defined contribution systems is the lump sum pension conversion at retirement. For many years members have received a report outlining a lump sum accrual over time. At retirement it is very difficult for the individual and the system to provide an estimate of individual longevity. A two-sided risk therefore exists, both underuse of savings and overuse. Adding to the challenge are new issues to consider. Retirement is not a constant pattern of activity. The earlier years are usually active, the mid years less active with in home support required and the later years specialist accommodation and health support required in an aged care facility. It is a very complex equation. Whilst consumption income will decline, expenditure of health and other support services will increase. Therefore, the mix of income and service support including the mix of government versus personal funding needs to be carefully considered and calculated.

Individuals are reluctant to purchase a lifetime pension because, unlike the state pension, they are reluctant to leave any residual capital to a private life provider. This, in turn, means far fewer participants and higher costs/ lower returns due to lack of scale and group health longevity risk sharing. Mandatory pension options are desirable, however difficult to introduce, and are required as more and more individuals view their DC lump sum as a right to spend as they see fit.

Whatever the retirement income/expenditure package is to be, the income level and service package, who is paying for what, needs to be designed and implemented within a few years of any new system. At the same time, it needs to be flexible enough to be adjusted for the increased dependency ratio and longer and health lives. This aspect of defined contribution systems has been dealt with, or more correctly not dealt with, by most countries far too late, or inadequately.

TOR Financial Consulting Ltd 2022
Po Box 302
Woodbridge
IP13 0WE
UK

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Retirement Policy and Research Centre

An independent Commentary[1] on the Final Design of the Auto-enrolment AE savings scheme for Ireland based on the New Zealand experience

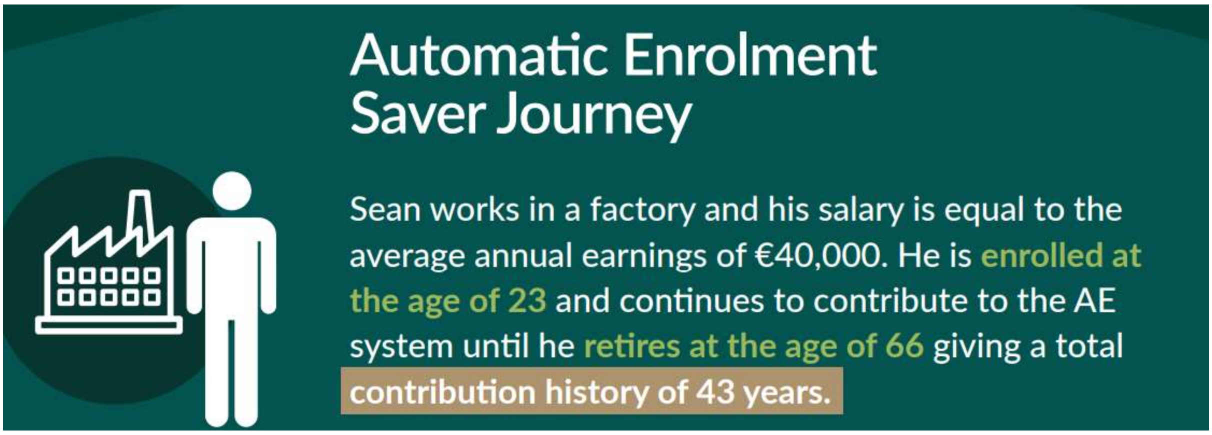
Susan St John
Director of the RPRC Auckland University Business School

[1] Irish Life and TOR Financial Consulting Limited's sponsorship of this critique is acknowledged but the views expressed are the author's own.

Introduction

From an independent vantage point in New Zealand, the RPRC has been a keen observer of the development of the Irish Auto-enrolment (AE) scheme.[2] The recently released 'Final Design' from the Department of Social Protection, even after many years of consultation, appears to have some design features of real concern.[3] We hope that the New Zealand experience might inform some essential modifications of the AE proposal, especially if the goal of wider coverage and inclusion is to be realised.

The first slide of the document that accompanies the final design "*The Design Principles for Ireland's Automatic Enrolment Retirement Savings System"* embodies in both the icon and example, the apparent underlying premise that pension savings schemes are designed for men in traditional full-time work. Women will struggle to see themselves in this scheme.



The image and the language matters; the use of the term 'people' through-out the 'Final Design' may appear to be gender-neutral and hence even-handed, but only serves to disguise the gender problem. The icon, half male and half female, as used in the Final Design also serves to obscure male and female differences and the reasons for them.

Countries like New Zealand are constantly revising retirement policies to make them a better fit for the changed conditions of the 21st century and reflect the zeitgeist that reflects wide acceptance of women's rights as equals and values their unpaid care contributions.

Even though the New Zealand AE scheme, KiwiSaver, has many design features that are good for women, it is clear that much more is needed to avert future gendered-poverty and to meet the rising tide of female voices demanding recognition of their role in society and a closing of the pensions gender gap. This is an ongoing task especially in light of the job scarring effects

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[2] See for example: St John, S (2021) Submission on the Irish State Pension; Dale, MC and St John, S (202O) Women and Retirement in a post COVID-19 world; St John, S (2018) Feedback on the 'strawman' proposal for Irish pension reform from New Zealand experience; St John, S (2016) Time for Ireland to bite the bullet, Irish Times 1 November, and St John, S (2016) St John, S (2016) New Zealand's Kiwi Saver Lessons for Ireland. presented to Insurance Ireland summit, A universal pension for Ireland, 13 September, Dublin, Ireland,

[3] See appendix for the main features of the Irish AE scheme.

of the Covid pandemic, rising housing stress and rising inflation that have impacted disproportionately on women.[4]

If the Irish AE scheme can be modified to suit the majority of women better, many men will also benefit as they are seeing their traditional patterns of work changing dramatically in the 21st century, especially post Covid. Importantly, Ireland will not be judged internationally and in the eyes of women to be backward and out of step with inevitable social change.

This brief contribution hopes to ring some warning bells before the Irish scheme cements in some undesirable outcomes that will only become evident over time. By then, it will be too late for generations of women, and elder female poverty in Ireland can be expected to become a major social blight. Ireland runs the danger of being an outlier internationally in not paying attention to the gender pensions gap.

AE purpose and design

The appendix summaries the Irish AE scheme features. Those aged 23 years and over in employment without an existing scheme are automatically enrolled in the AE scheme with opt-out provisions. There are matching subsidies from the employer and government and 'workers' outside the age range of 23-60 and/or the minimum income can choose to opt-in.

Poor coverage of occupational pensions, especially in the non-public sector, is clearly the underlying driver of AE reform in Ireland

> *Not enough people have occupational or supplementary pension coverage to help maintain a reasonable standard of living in retirement above the level of the State Pension* [5]

Likewise, the poor coverage of occupational pensions in New Zealand to supplement the basic state pension drove the introduction of the AE programme KiwiSaver in 2007.

AE schemes in both countries assume the existence of a stable state pension as the first tier of retirement provision. But New Zealand women have access to the universal flat rate NZ superannuation at age 65 that has no contributory element and forms a secure basis on which to build supplementary income. This top-up income may be from the AE KiwiSaver, other saving or continuing to work after state pension age.

In contrast, women in the Irish retirement system are often not well served by the Irish state pension.[6] Already at a disadvantage due to the contributory nature of the state pension and the rise in age to 66, many women will be exposed to yet more disadvantage in the AE scheme proposed.

There are several elements in the design of KiwiSaver that are much more women friendly than the new Irish AE scheme. The reason the Irish scheme designers should pay attention, is that even though KiwiSaver has the positive features discussed below, there is still a big disparity

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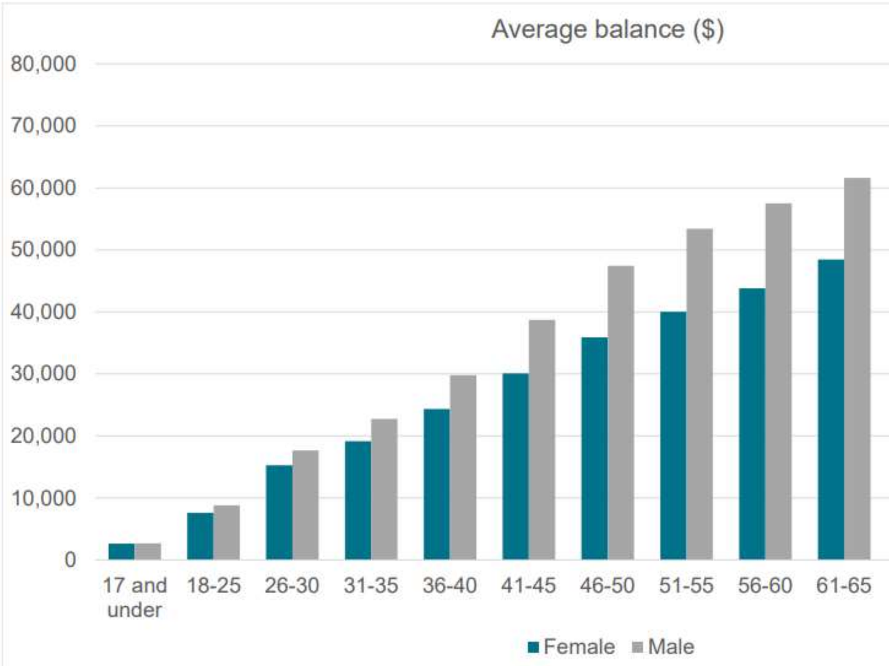
[4] See discussion in Dale, C and St John, S (202O) Women and Retirement in a post COVID-19 world
[5] Final Design of the Auto-enrolment AE savings scheme for Ireland
[6] see for example: St John, S (2021) Submission on the Irish State Pension;

emerging in average KiwiSaver balances between the sexes as new research summarised in Figure 1 shows.[7]

Figure 1. The Average KiwiSaver balance by age cohort, a snapshot as at 31 December 2021.



These gaps reflect only 15 years of KiwiSaver. They are likely to grow bigger over time as KiwiSaver matures. Moreover, if the data were available for median balances, the gap would be larger again. The data reflect the position of only those in KiwiSaver, if all women including those who are not in KiwiSaver, the disparity in preparedness for retirement would be even more stark.

The warning for Ireland is that without deliberately gender-friendly policies, the gender pension gap in the AE scheme will grow far wider.

Better official data in New Zealand is needed, including gender-based median balances. The current data gaps suggest this should be built into compulsory reporting requirements and not be left to one-off privately commissioned data gathering. The lesson is that gender-based data collection should receive focussed attention in the AE Final Design.

Design elements of AE

The paid work nexus

The paid work nexus of the Irish AE scheme has an obvious cost to women doing the vitally important social productive unpaid work. The example of Emily, p34 who works from age 50 years illustrates and contrasts with the example of Sean, who has traditional full time employment. Her final pot is no more than €148,121.

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[7] The data behind Figure 1 come from a private survey of the largest providers- about 93% of the total KiwiSaver membership by the actuarial firm Melville Jessup Weaver. KiwiSaver-Demographic-Study-MJW-2022.pdf..Privacy concerns precluded reporting of medians.

Projected Fund Breakdown at Retirement	
Emily's contributions	€53,797
Emily's employer's contributions	€53,797
State top-up	€17,932
Emily's total savings	€125,526
Projected net investment returns	€22,595
Emily's total projected fund	€148,121

Sean's outcome below, shows he benefits hugely more than Emily, due to more years of his and his employers' contributions, the longer period of compounding period, and the higher state contribution.

Breakdown of projected fund at retirement		% of Total
Employee contributions	€132,200	23%
Employer contributions	€132,200	23%
State subsidy	€44,067	8%
Net investment returns	€255,917	45%
Total projected fund	**€564,384**	**100%**

The work-nexus for AE also assumes work is of a particular type: i.e.paid work for an employer. This sidesteps the issue of a growth in self employment and short-term contracts in a world of more precarious and casual work which affects both men and women. New technology that encourages working remotely and the behavioural changes around work in the pandemic is changing the nature of work in the 21st century. While New Zealanders in non-traditional work can contribute to their own KiwiSaver and anyone can make lumpsum contributions, the employer contribution favours those in traditional work. The Final Design has little to say on future trends in non traditional work in Ireland or whether and how personal contributions can be made to the AE scheme.

Financial literacy

There is also a hidden cost of the work- nexus: the foregone opportunity to improve financial literacy of women who are not employed members. The Irish AE scheme does permit opt in, but it is an *occupational* scheme and without automatic enrolment or any encouragement for those not in sufficient paid work or under the age of 23 many women may assume it is just not for them.

Membership of KiwiSaver is open to all not just those in the formal paid workforce. The absence of a strong work nexus in KiwiSaver works in favour of women so that even those in unpaid roles can have an account. She may contribute the annual minimum of NZ $20 a week, while out of the paid workforce and still get the maximum state subsidy (NZ $521 pa).[8]

One of the original women friendly design features of KiwiSaver was a NZ$1000 kickstart for all new members. This gave women a clear signal that they should join even if not in paid work. For those with small contributions while out of the paid workforce the Kickstart helped cushion the effects of downturns in investment returns.

Women in patriarchal societies have traditionally been at a disadvantage in matters financial. The broader inclusion of women in KiwiSaver is accelerating attention to financial literacy programmes specifically for women. Associated with a three yearly review of Retirement Incomes policies, the NZ Retirement Commissioner is joining with the wide participation of private providers to promote women's (wāhine) preparedness for retirement. In May 2022 the Financial Services Council [FSC] began a three-month, pan-sector campaign to take meaningful action:

> *Over 80% of women surveyed by the FSC rated their financial wellbeing moderate, low or very low. "In response to these findings, we were delighted to partner with Te Ara Ahunga Ora Retirement Commission on this important initiative that will help change these statistics," said FSC chief executive Richard Klipin. Retirement Commissioner Jane Wrightson said the FSC's latest research further highlights why women have been identified as a priority group in the National Strategy for Financial Capability.*[9]

The entry age

The high age of 23 years for AE entry into the Irish scheme mirrors the UK Nest AE scheme age of 22. In contrast, AE for Kiwisaver starts at 18 for new employees along with the employer contributions and the state subsidy. Given the typical patterns of women's lives, working in late teens, early twenties then leaving work to raise children- often up to 20 years or more out of formal workforce and then re-entry at later ages, the Irish scheme AE entry age of 23 years seems particularly harsh. While an Irish woman may opt in, it is not in the employer's interests that she does and it is very likely she will not as the signals are strongly that the scheme is not for her. She may not therefore have the benefit of compounding of her savings in the AE programme for her early years of working and then loses access to the valuable compounding government subsidies when she is not in paid work.

Women live longer and need more long term care on average. Helping women to prepare for their retirement is important in counties like Ireland and New Zealand where the fiscal pressures of an ageing of the population may challenge the age of entitlement for the state pension, the future generosity of the state pension, and state-funded long-term care.

Auto-enrolment is to apply initially up to the age of 60 in the 'Final Design', yet women's work patterns are such that many will come back into the workforce later and work through necessity well beyond the state pension age of 66. If they come back after 60 or are working part-time they may not qualify to be automatically enrolled.

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[8] Exchange rate 9/5/22: 1 NZ $=0.62 Euro

[9] Financial Services Council rallies organisations to grow women's financial wellbeing (fsc.org.nz)

The operation of subsidies payable only between fixed ages, 18-65 in New Zealand also disadvantages women. The male example (Sean) in the Irish promotion of AE, has access to employer and state subsidies for the full 43 years and presumably even longer if he works past 66. An equalising change in both countries would make people eligible for subsidies for the same number of years regardless of the age they were earned. Another equalising change would be to recognise unpaid work and pay state subsidies to women in caregiving roles.

Employer subsidies

Worryingly, as the employer pays a matching subsidy on incomes up to €80,000 those women not in the AE programme but in paid work essentially endure lower wage growth and subsidise the AE savings of others.

After 10 years, employee and employer contributions are to be 6% of gross with another matching 2% from the state. The maximum employer subsidy at earnings of €80,000 or more is €4800 with a further €1600 from the state. This maximum € 6400 top up for better-off workers is contrasted with someone earning €20,000 who is entitled to only €1600 (€1200 from the employer and €400 from the state). The design of this incentive structure will help drive increasing gender disparity over time.

New Zealand incentive structure has no cap on employer contributions, but it less generous for state subsidies reducing the effect of widening the gender pensions gap.[10] Furthermore, as KiwiSaver evolves, there is a case to be made that the employer contribution should be compulsory for all KiwiSaver members whether contributing or not. This would be a much fairer system for women while not imposing full compulsory membership.

Entry point

Auto-enrolment is for those who earn over €20,000 pa. This is likely to be highly problematic for women who may only ever be able to work part-time. While a woman might stitch together jobs with several employers to reach the threshold of €20,000, it unclear how that can work in practical terms especially when employment fluctuates. What happens when in later working life she returns part-time under the threshold? How is the €20,000 indexed? One anticipates many women missing out on the subsidies of her male counterparts. No such AE threshold exists in New Zealand, nor does it appear necessary when the individual controls their own pension pot.

Other features of the Irish AE Final Design

Design of tax relief

In Ireland, people may end up with several pension pots from several different employer-based schemes making pensions complicated to understand. Expensive tax reliefs that primarily are of benefit to high income members remain an embedded part of the system and will be hard to dislodge.

> *"Tax support for private pensions peaked at 1.9% of GNP in 2006, which was not far short of public support for state pensions at 2.1% of GNP. (Hughes & Maher, 2016). The lack of the reform to this sector, including*

[10] The 50% tax subsidy in New Zealand is limited to the first NZ $1042 of member contribution.

the use of expensive tax subsidies remains a likely impediment to the design and implementation of a straight-forward AE scheme" [11]

The (AE) scheme in Ireland is expected to complement, not replace existing schemes. In contrast, in New Zealand, it is expected that AE KiwiSaver will eventually supplant most conventional superannuation schemes, ie KiwiSaver will continue to grow while other schemes are static or falling in both membership and assets.

This suggests that AE in Ireland will signal a shift towards further complexity rather than pursuing routes to simplifying the system despite widespread acceptance that the current Irish system is overly complex and in need of simplification.

Decumulation

If AE schemes are to provide income in retirement, then careful attention to that design element is required at the outset. In New Zealand, KiwiSaver was introduced as a lump sum scheme, with little attention to how lumpsums would be decumulated. That makes it very difficult now to impose compulsory annuitisation for example. The tax regime of TTE with small state subsidies for only the member contributions does not provide the justification the Irish, with its more traditional EET approach, can use for annuitisation. It would be wise to give the decumulation phase much more thought than the current Final Design indicates has been the case.

It should be noted that New Zealanders' ability to offset longevity risk through traditional annuities found in Ireland is currently non-existent and the annuities market since the removal of all tax reliefs has disappeared from the financial services market. Traditional annuities still in payment are few and are largely from legacy schemes in the public sector. Drawdown products are becoming more talked about in New Zealand but do not fully protect the longevity risk.

Once Ireland was leading the world in house price inflation, now sadly that place has been taken by New Zealand.[12] Housing in New Zealand is highly tax favoured, effectively TEE, with no tax on imputed rent and no capital gains tax. Many New Zealand retirees therefore seek investment in rental properties to generate income streams and there is little to no discussion of the role of annuitisation.

In summary, New Zealand did not get the decumulation part of KiwiSaver right and its history is that the removal of tax reliefs, for whatever economic justification, destroyed the annuities market. It will require innovative thinking now to provide longeivity and long term care protection for women. Ireland has the opportunity to explore innovative solutions to its traditional current annuity markets. Irish regulators should tread carefully so as to not disrupt the existing retirement incomes market that already supports a number of existing and planned retirees. Again, attention to this design aspect of AE is best at the outset as the New Zealand may show.

Discussion

Ireland has around the same population as New Zealand, but unlike New Zealand, Ireland has a piecemeal and complex pension system comprising a plethora of traditional workplace

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[11] See St John, S (2018) Feedback on the 'strawman' proposal for Irish pension reform from New Zealand experience,.

[12] See St John, S & Baucher, T (2021) Fair Economic Return Restoring equity to the social fabric of New Zealand, WP-2021, RPRC.

pension schemes and a complex, first tier state pension scheme based on contribution and a proposed AE scheme that reinforces disadvantages women with non-traditional work patterns face already.

Over time, the participation of women in existing schemes has risen but this has not translated to a closing of the pensions gap. Collins (2020)[13] shows that men contribute between 30% and 35% more than women to pension schemes. Other findings are that amongst retired people, 55% of retired men receive a private or occupational pension, compared to only 28% of women (Foster, Wijeratne, & Mulligan, 2020)[14]. The new AE will do little to address this gap and over time its present design is highlgy likely contribute to further widening.

Women in Ireland face similar issues of gender pay gaps, high-cost child-care, lower contributions to savings schemes that are found in other countries. These disadvantages are compounded in the gender pension gap for Irish women in retirement by the design of the new AE pension policy.

The AE scheme would be improved by

- More attention to the changing work dynamics
- Removal of the €20,000 threshold
- Reduction of the age for AE to 18
- Removal of the upper age for AE
- Use of KickStart lumpsum subsidy to encourage women to opt in early.
- More progressive state subsidies to recognise valued but unpaid work
- Better statistical underpinnings on gender saving in AE
- Rationalisation of tax regimes for private and AE schemes
- Attention from outset to decumulation, especially with the needs of women in mind

[13] Collins, M (2020) Private Pensions and the Gender Distribution of Fiscal Welfare
[14] Foster, L., Wijeratne, D., & Mulligan, E. (2020). Gender and proposed Auto-enrolment in the Republic of Ireland: Lessons from the UK. Producer.

Appendix

A Supplementary Pensions Retirement Savings System Commencing in 2024

What is it?
Automatic Enrolment (AE) is a new savings and investment scheme for employees where financial returns are paid out to participants on retirement, in addition to the State Pension.

Why is it being set up?
Not enough people have occupational or supplementary pension coverage to help maintain a reasonable standard of living in retirement above the level of the State Pension.

Who will be automatically enrolled?
Approximately 750,000 employees who are aged between **23 and 60**, earning **over €20,000** across employments, and who are not already enrolled in an occupational pension scheme.

How much will it cost?
Contributions will be paid by employees, and matched by their employers, as a percentage of the employee's gross income. The State will top-up the rest. The rates of contribution will be phased-in gradually over a decade as follows:

	Employee	**Employer**	**State**
Years 1 - 3	1.5%	1.5%	0.5%
Years 4 - 6	3%	3%	1%
Years 7 - 9	4.5%	4.5%	1.5%
Year 10 +	6%	6%	2%

Employer contributions and the State top-up will be capped at a maximum €80,000 of an employee's gross salary. Employees may contribute on earnings greater than €80,000 if they wish.

Will it be possible to leave the system?
Opting out or suspending participation is possible under certain circumstances.

How will it be managed?
A Central Processing Authority (CPA) will be set up to ensure the best interests of participants and will:
- administer the system on behalf of enrolled employees, their employers and the State
- collect, pool and distribute contributions to commercial investment managers
- collect, pool and distribute financial investment returns to participants
- operate an online accounts portal where participants can see their savings pot grow
- facilitate a 'pot-follows-member' system whereby participants will benefit from owning one single AE pension pot across employments and throughout their working lives
- set standards for the commercial registered providers of AE investment products

How will investment work?
There will be a well-balanced and well-diversified default investment fund, plus three other fund options for employees who want to invest their money at different levels of risk.